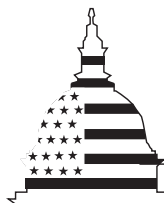


September 2007

# DEFENSE LOGISTICS

## Army and Marine Corps Cannot Be Assured That Equipment Reset Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational Requirements

**G A O**Accountability \* Integrity \* Reliability

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Highlights of [GAO-07-814](#), a report to congressional committees

## Why GAO Did This Study

Congress has appropriated billions of dollars for equipment repair, replacement, and recapitalization, collectively known as equipment reset. Because of the potential for equipment reset costs to affect the Department of Defense's (DOD) future budget requirements and related readiness concerns, GAO initiated this review under the Comptroller General's authority. GAO's objectives were to determine the extent to which the Army and Marine Corps (1) track and report equipment reset expenditures in a way that confirms that funds appropriated for reset are expended for that purpose and (2) can be assured that their reset strategies will sustain equipment availability while meeting ongoing operational requirements. GAO reviewed equipment reset policies and analyzed related budget data.

## What GAO Recommends

GAO recommends that the Secretary of Defense (1) improve DOD's reporting of obligations and expenditures within the procurement accounts and (2) assess the services' approaches to equipment reset to ensure that their priorities address equipment shortages in the near term to equip units that are preparing for deployment. DOD did not agree with these recommendations. As a result, GAO is suggesting that Congress direct DOD to revise its Financial Management regulation pertaining to procurement funds.

To view the full product, including the scope and methodology, click on [GAO-07-814](#). For more information, contact William M. Solis at (202) 512-8365 or [williams@gao.gov](mailto:williams@gao.gov).

## DEFENSE LOGISTICS

### Army and Marine Corps Cannot Be Assured That Equipment Reset Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational Requirements

## What GAO Found

Although the Army and Marine Corps track and report equipment reset expenditures in the operation and maintenance accounts in detail, they do not report detailed equipment reset expenditures within the procurement accounts in a way that confirms that funds appropriated for reset are expended for that purpose because the DOD Financial Management Regulation does not require them to specifically report procurement expenditures for reset in detail. As directed by the Conference Report accompanying DOD's appropriations act for 2007, the Army and Marine Corps report detailed reset obligations and expenditures in their operation and maintenance accounts. While the Army and Marine Corps track reset expenditures and obligations in detail within the procurement accounts, they do not report those expenditures at the same level of detail as with the operation and maintenance accounts because they are not legally required to do so. Neither the Army's nor the Marine Corps' monthly *Supplemental and Cost of War Execution Reports* identify the types of equipment at the subactivity group level, such as aircraft or vehicles. Until the Army and Marine Corps are required to report the obligation and expenditure of funds appropriated for reset in the procurement accounts at a more detailed level, Congress will not have the visibility it needs to exercise effective oversight and to determine if the amount of funding appropriated for equipment reset has been most appropriately used for the purposes intended.

The Army and Marine Corps cannot be assured that their reset strategies will sustain equipment availability for deployed units as well as units preparing for deployment to Iraq and Afghanistan while meeting ongoing operational requirements because neither the Army's nor the Marine Corps' reset implementation strategies target shortages of equipment on hand and prioritize equipment needs of units preparing for deployment over longer-term modernization goals. While the Army's Force Generation implementation strategy and reset implementation guidance state that the goal of reset is to prepare units for deployment and to improve next-to-deploy units' equipment-on-hand levels, the Army's reset strategy is based on resetting equipment that it expects will be returning to the United States in a given fiscal year and not on targeting shortages of equipment for units preparing for deployment to Iraq and Afghanistan. Similarly, the Marine Corps' reset goal is to ensure that the Corps is equipped to perform both ongoing operations and future missions; however, over 80 percent of its reset budget is for procurement of equipment that will not be available for many months. Units can continue to report significant shortages during their training cycles that affect their ability to train. Thus, the services may be sacrificing short-term equipment needs for longer-term modernization goals. Until the services' reset strategies target shortages of equipment needed to equip units preparing for deployment and give priority to those units over longer-term needs, the Army and Marine Corps will be unable to minimize operational risk by ensuring the needs of deploying units can be met.

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United States Government Accountability Office  
Washington, DC 20548

September 19, 2007

## Congressional Committees

Continuing military operations in Iraq and Afghanistan are taking a toll on the condition and readiness of military equipment. Harsh combat and environmental conditions in theater over sustained periods of time exacerbate equipment repair, replacement, and recapitalization problems that existed before the onset of combat operations in Iraq and Afghanistan. Upon returning from operations, equipment is reset in preparation for future operations. Although the Army and Marine Corps continue to meet mission requirements and report high readiness rates for deployed units, these services are operating with increasing risk to overall readiness due to equipment shortages and equipment readiness shortfalls. As a result, costs to repair, replace, and recapitalize equipment, collectively known as reset, will increase significantly in future Department of Defense (DOD) annual budgets.

In response to DOD's request for funds to meet its needs for equipment reset, Congress has appropriated tens of billions of dollars. Congress has provided the Army and Marine Corps with more than \$49 billion in supplemental<sup>1</sup> appropriations since fiscal year 2002 for the reset of equipment in addition to the billions of dollars provided to DOD to sustain military equipment in its annual or baseline budgets.<sup>2</sup> In fiscal year 2007 alone, the Army received \$17.1 billion for equipment reset, almost double the \$8.6 billion in funding the Army received for equipment reset programs in fiscal year 2006. Of the \$17.1 billion, the Army plans to fund reset with \$8.6 billion from operation and maintenance appropriations and \$8.5 billion from procurement appropriations. The Marine Corps received \$5.8 billion in fiscal year 2007, slightly more than the \$5.1 billion it received in fiscal year 2006. Of the \$5.8 billion,<sup>3</sup> the Marine Corps plans to

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<sup>1</sup>Supplemental appropriations for reset are used to fund the incremental costs above the baseline budget that are necessary to repair and replace equipment needed for ongoing operations.

<sup>2</sup>The baseline budget funds equipment maintenance for nondeployed equipment and the purchase of equipment to fulfill longer-term equipment requirements.

<sup>3</sup>The total \$5.8 billion reset funding includes \$0.7 billion initially appropriated for procurement of Mine Resistant Ambush Protected vehicles, which was later reclassified as a cost of war, not reset.

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fund reset with \$0.9 billion from operation and maintenance appropriations and \$4.9 billion from procurement appropriations.<sup>4</sup>

The Army Chief of Staff<sup>5</sup> and Commandant of the Marine Corps<sup>6</sup> have testified about the extraordinary demands placed on the services' equipment and concerns regarding their abilities to support extensive reset efforts while also transforming to a more flexible and more deployable force. According to the Army Chief of Staff, only through a fully funded reset program can the Army extend the life of its equipment and remain ready for future conflicts. The Commandant of the Marine Corps also stated that timely delivery of replacement equipment through reset funding is crucial to sustaining high readiness rates in theater as well as improving readiness rates for forces at home.

As we have testified before the House Committee on Armed Services,<sup>7</sup> the Army and Marine Corps will face a number of ongoing and long-term challenges that will affect the timing and cost of equipment reset, such as Army and Marine Corps transformation initiatives, depot capacity issues, the potential transfer of U.S. military equipment to Iraqi Security Forces, and the possibility of continuing logistical support for Iraqi Security Forces. We also observed that while the precise dollar estimate for the reset of Army and Marine Corps equipment will not be known until operations in Iraq and Afghanistan cease, it will likely cost billions of

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<sup>4</sup>Reset is funded through two appropriations—operation and maintenance appropriations and procurement appropriations. Operation and maintenance appropriations fund repair and maintenance of equipment while procurement appropriations primarily fund replacement of equipment. Recapitalization of equipment is further subdivided into rebuild, which is funded with operation and maintenance appropriations, and upgrade (enhanced capability), which is funded with procurement appropriations.

<sup>5</sup>*Army Posture Statement*, Statement before the House Committee on Armed Services, 110th Cong. (2007) (statement of Gen. Peter J. Schoomaker, U.S. Army Chief of Staff). Statement on the Army's Reset Strategy and Plan for Funding Reset Requirements, Statement before the House Committee on Armed Services, 109th Cong. (2006) (statement of Gen. Peter J. Schoomaker, U.S. Army Chief of Staff).

<sup>6</sup>*Marine Posture Statement*, Statement before the Senate Committee on Armed Services, 110th Cong. (2007) (statement of Gen. James T. Conway, Commandant of the Marine Corps). Statement before the House Committee on Armed Services, 109th Cong. (2006) (statement of Gen. Mike Hagee, Commandant of the Marine Corps).

<sup>7</sup>GAO, *Defense Logistics: Preliminary Observations on the Army's Implementation of Its Equipment Reset Strategies*, [GAO-07-439T](#) (Washington, D.C.: Jan. 31, 2007), and *Defense Logistics: Preliminary Observations on Equipment Reset Challenges and Issues for the Army and Marine Corps*, [GAO-06-604T](#) (Washington, D.C.: Mar. 30, 2006).

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dollars to repair and replace equipment. While the services are working to refine overall requirements, the total requirements and costs are unclear and raise a number of questions as to how the services will afford them. We concluded that until the services are able to firm up these requirements and cost estimates, neither the Secretary of Defense nor Congress will be in a sound position to weigh the trade-offs between competing requirements and risks associated with degraded equipment readiness.

Over the past several years, we also have reported on related equipment issues, including the lack of equipment program strategies;<sup>8</sup> poor condition of pre-positioned equipment, which could lead to near-term operational risks in the event of another large-scale conflict;<sup>9</sup> and challenges related to replacing Army National Guard equipment left in the Operation Iraqi Freedom (OIF) theater to support ongoing operations.<sup>10</sup> Furthermore, we have reported on the lack of transparency and inaccuracies in reported Global War on Terrorism (GWOT) obligations,<sup>11</sup> and that DOD was unable to accurately track and report equipment reconstitution costs in its supplemental budget requests because the services' accounting codes were capturing GWOT and other obligations that were not incurred exclusively for equipment reconstitution. In addition to these issues, we have also reported on long-standing problems with DOD's accounting

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<sup>8</sup>GAO, *Military Readiness: DOD Needs to Reassess Program Strategy, Funding Priorities, and Risks for Selected Equipment*, [GAO-04-112](#) (Washington, D.C.: Dec. 19, 2003), and *Military Readiness: DOD Needs to Identify and Address Gaps and Potential Risks in Program Strategies and Funding Priorities for Selected Equipment*, [GAO-06-141](#) (Washington, D.C.: Oct. 25, 2005).

<sup>9</sup>GAO, *Defense Logistics: Improved Oversight and Increased Coordination Needed to Ensure Viability of the Army's Prepositioning Strategy*, [GAO-07-144](#) (Washington, D.C.: Feb. 15, 2007), and *Defense Logistics: Better Management and Oversight of Prepositioning Programs Needed to Reduce Risk and Improve Future Programs*, [GAO-05-427](#) (Washington, D.C.: Sept. 6, 2005).

<sup>10</sup>GAO, *Reserve Forces: Army National Guard's Role, Organization, and Equipment Need to Be Reexamined*, [GAO-06-170T](#) (Washington, D.C.: Oct. 20, 2005).

<sup>11</sup>GAO, *Global War on Terrorism: Fiscal Year 2006 Obligation Rates Are Within Funding Levels and Significant Multiyear Procurement Funds Will Likely Remain Available for Use in Fiscal Year 2007*, [GAO-07-76](#) (Washington, D.C.: Nov. 13, 2006), and *Defense Management: Processes to Estimate and Track Equipment Reconstitution Costs Can Be Improved*, [GAO-05-293](#) (Washington, D.C.: May 5, 2005).

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systems<sup>12</sup> and personnel issues.<sup>13</sup> Moreover, the John Warner National Defense Authorization Act for Fiscal Year 2007 directed the Secretary of the Army to submit a report to the congressional defense committees in conjunction with the President's annual budget submission, which includes information about reset expenditures as well as future funding for reset requirements.<sup>14</sup>

Because of the potential for reset costs to significantly affect DOD's budget requirements in the coming years and related equipment readiness issues, this report focuses on tracking and reporting reset costs and the relationship between Army and Marine Corps equipment reset implementation strategies and their ability to sustain equipment availability. We performed our work under the authority of the Comptroller General<sup>15</sup> to conduct reviews on his own initiative and are reporting the results to you because of your oversight roles. Our objectives were to identify the extent to which the Army and Marine Corps (1) track and report equipment reset expenditures in a way that confirms that funds appropriated for reset are expended for that purpose and (2) can be assured that their reset implementation strategies will sustain equipment availability while meeting ongoing operational requirements.

To address our first objective, we reviewed the monthly *Supplemental and Cost of War Execution Reports*, analyzed equipment reset funding requests, and discussed equipment reset tracking and reporting systems with Army and Marine Corps officials to determine the extent to which their financial management systems confirmed that funds appropriated for reset are expended for that purpose. We reviewed reported obligations and expenditures and budget estimates for Army and Marine Corps equipment reset funding and determined that the reliability of these data was sufficient for our purposes. To address our second objective, we examined service policies and processes for developing reset plans and discussed with Army and Marine Corps officials the services' equipment reset implementation strategies and how they plan to sustain equipment

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<sup>12</sup>[GAO-05-293](#).

<sup>13</sup>GAO, *Reserve Forces: Plans Needed to Improve Army National Guard Equipment Readiness and Better Integrate Guard Into Army Force Transformation Initiatives*, [GAO-06-111](#) (Washington, D.C.: Oct. 4, 2005).

<sup>14</sup>Pub. L. No. 109-364, § 323 (2006).

<sup>15</sup>31 U.S.C. § 717.

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availability while meeting ongoing operational requirements. We did not review the services' overall equipping strategies. We also selected five pieces of high-demand equipment for review and compared the services' planned reset activities to equipment requirements.<sup>16</sup> These equipment items were identified by service officials as well as previous GAO reports as items critical to ongoing operations, and large numbers of these equipment items have gone through multiple rotations or have been in constant use in the OIF theater. Our review included only major end items, primarily ground equipment and rotary aircraft. We reviewed inventory numbers, location of equipment (e.g., items deployed or nondeployed), and acquisition plans for future procurement of new equipment. For work under both objectives, we held discussions at service headquarters responsible for developing and executing equipment reset implementation strategies, met with officials from commands responsible for executing reset programs, met with an Army Division preparing to deploy to Iraq in 2007, and met with officials in the Office of the Secretary of Defense (OSD) to discuss overall reset policies and programs. We reviewed reported obligations and expenditures and budget estimates for Army and Marine Corps equipment reset funding and determined that the reliability of these data was sufficient for our purposes. We performed our work from October 2005 through April 2007 in accordance with generally accepted government auditing standards. Appendix I contains more detailed information about our scope and methodology.

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## Results in Brief

Although the Army and Marine Corps track and report equipment reset expenditures in the operation and maintenance accounts in detail, they do not report detailed equipment reset expenditures within the procurement accounts in a way that confirms that funds appropriated for reset are expended for that purpose because there is no requirement to report procurement expenditures beyond what is required by the DOD Financial Management Regulation (FMR).<sup>17</sup> While the Conference Report accompanying the DOD appropriations act for 2007 directed the Secretary of Defense to periodically provide a detailed accounting of obligations and expenditures of funds provided in Title IX of the act, which includes funds

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<sup>16</sup>The five equipment items we profiled are the M1 Tank, Bradley Fighting Vehicle (Army only), High Mobility Multi-Purpose Wheeled Vehicle, Heavy Expanded Mobility Tactical Truck (Army only), and the Marine Corps CH-53E helicopter.

<sup>17</sup>DOD Financial Management Regulation, vol. 12, ch. 23, "Contingency Operations Cost Categories and Definitions," § 230406. According to an OSD official, the updated version referred to in this report, although not yet available online, was adopted in January 2007.

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provided for reset, by program and subactivity group and to provide a listing of equipment procured using funds appropriated under Title IX of this act,<sup>18</sup> the Army and Marine Corps are not legally required to provide this detailed accounting. The Army and Marine Corps currently provide detailed reports of obligations and expenditures within the operation and maintenance accounts, but have chosen not to provide the same detailed accounting of obligations and expenditures within the procurement accounts. Consequently, neither DOD nor Congress can be assured that procurement funds appropriated for equipment reset are being obligated and expended for equipment reset for deploying units and units preparing to deploy to Iraq and Afghanistan instead of other, more long-term equipment needs. As we recently testified,<sup>19</sup> as of fiscal year 2007, the Army has begun to track and report reset obligations and expenditures in its operation and maintenance account. According to Army officials, the Army segregates the cost of reset from other costs and tracks expenditures to ensure that funds appropriated for this purpose are expended for this purpose. Unlike the Army, the Marine Corps began tracking and reporting reset execution in its operation and maintenance account when it began receiving reset funding in fiscal year 2006. The Marine Corps established a special identification code within its financial management systems to identify obligations and expenditures related to equipment reset. With regard to the procurement accounts, however, the Army's and the Marine Corps' monthly *Supplemental and Cost of War Execution Reports*<sup>20</sup> identify the costs of equipment reset as just one line, instead of reporting these costs at lower sub-cost categories,<sup>21</sup> such as vehicle procurement. The Army provides additional monthly reports to Congress detailing the status of procurement reset obligations in total dollars as well as a summary of the number of equipment items replaced or recapitalized; however, it does not provide a breakdown of the dollars associated with those quantities. The Marine Corps does not provide these additional reports because it was not required or requested to provide such reports but could provide reports at the budget line item level if

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<sup>18</sup>H.R. Conf. Rep. No. 109-676, at 359 (2006), which accompanied the Department of Defense Appropriations Act, 2007, Pub. L. No. 109-289 (2006).

<sup>19</sup>[GAO-07-439T](#).

<sup>20</sup>DOD provides monthly *Supplemental and Cost of War Execution Reports* to Congress by service, defense agency, contingency operation, and appropriation.

<sup>21</sup>DOD Financial Management Regulation, vol. 12, ch. 23, "Contingency Operations Cost Categories and Definitions," § 230406 refers to these more detailed costs as sub-cost categories.

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requested. Until the Army and Marine Corps are required to report the obligation and expenditure of funds appropriated for reset in the procurement accounts at lower sub-cost category levels, similar to the level of detail they report for obligations and expenditures in the operation and maintenance accounts, Congress will not have the visibility it needs to exercise effective oversight and to determine if the amount of funding appropriated for equipment reset has been most appropriately used for the purposes intended, such as addressing the short-term needs of deploying units and units preparing to deploy to Iraq and Afghanistan. Furthermore, because the Army was not required to track the execution of its reset appropriations from the onset of operations, it does not have historical execution data upon which to base future cost estimates.<sup>22</sup> As we have reported, historical execution data would provide a basis for estimating future funding needs.<sup>23</sup>

The Army and Marine Corps cannot be assured that their reset implementation strategies will sustain equipment availability for deployed units as well as units preparing for deployment to Iraq and Afghanistan while meeting ongoing operational requirements because neither the Army's nor the Marine Corps' reset implementation strategies target shortages of available equipment and prioritize equipment needs of units preparing for deployment over longer-term modernization goals. According to the Army's Army Force Generation Model (ARFORGEN) implementation strategy and reset implementation guidance,<sup>24</sup> the primary goal of reset is to prepare units for deployment and to improve next-to-deploy units' equipment-on-hand levels. However, the Army's reset implementation strategy is based on resetting equipment that it expects will be returning to the United States in a given fiscal year and not on targeting shortages of equipment for units preparing for deployment to Iraq and Afghanistan. Similarly, the Marine Corps' reset goal is to ensure that the Corps is equipped to perform both ongoing operations and future missions. However, neither the Army nor the Marine Corps can ensure that

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<sup>22</sup> Army officials initially stated that because they were not required to track execution data at the onset of operations, they could not provide those historical data. Subsequently, Army officials provided execution data as of fiscal year 2002 broken down by operation and maintenance (i.e., field-level repair, depot-level repair, Army pre-positioned stock, and recapitalization—rebuild) and procurement (i.e., recapitalization—upgrade and replacement). However, Army officials stated that they had to extrapolate these numbers because the data were not tracked that way at the onset of operations.

<sup>23</sup> [GAO-07-76](#) and [GAO-05-293](#).

<sup>24</sup> Army FRAGO, *FY07 Reset FRAGO* (Sept. 29, 2006).

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their reset implementation strategies can achieve these goals because neither service's reset implementation strategies target shortages of available equipment needed to equip deploying units and units preparing for other missions and contingencies in order to minimize operational risk. For example, as part of their fiscal year 2007 reset strategy, the Army plans to recapitalize more than 7,500 High Mobility, Multi-Purpose Wheeled Vehicles (HMMWV) at a cost of \$455 million; however, these recapitalized HMMWVs will not be available to train or equip units deploying for OIF missions due to inadequate force protection and will have limited training value to deploying units primarily because the unarmored HMMWVs have different handling characteristics and configurations than the armored HMMWVs used in Iraq. In addition, the Army's fiscal year 2007 reset strategy includes plans to modernize Abrams Tanks and Bradley Fighting Vehicles (Bradley) to accelerate achieving long-term strategic goals under the Army's modularity initiative. While deploying Army units have not experienced shortages of these items, accelerating modernization programs in general to achieve a modular force structure may be sacrificing other short-term needs for longer-term goals. According to Army officials, reset prepares units for the next mission, which can be either current (e.g., OIF/Operation Enduring Freedom (OEF)) or future (e.g., full-spectrum contingency operations) missions; thus, accelerating modernization of the Abrams Tanks and Bradleys would prepare units for future missions.<sup>25</sup> Although deployed Army and Marine Corps units and units about to deploy generally report high readiness rates, the services have reported a decrease in nondeployed units' reported readiness rates,<sup>26</sup> in part due to equipment shortages. The Army Chief of Staff has testified that the Army has had to take equipment from nondeployed units in order to provide it to deployed units, which increases risk to next-to-deploy units and limits the Army's ability to respond to emerging contingencies. In contrast, the Marine Corps reset planning process emphasizes replacing equipment; however, actions required to support this strategy have adversely affected readiness of nondeployed Marine Corps units. For

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<sup>25</sup>Equipment reset is one element of the services' overall equipment strategies. For example, the Army leverages all available equipment such as left behind equipment, theater-provided equipment, and new procurement as part of its overall equipping strategy within the ARFORGEN implementation strategy of which reset is a component. The Marine Corps' strategic ground equipment working group (SGEWG) implements the Commandant's guidance and prioritizes equipment distribution as part of an overall decision-making process employed by the Commandant of the Marine Corps.

<sup>26</sup>Nondeployed units reporting readiness under the Unit Status Reporting System include units preparing to deploy.

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example, as the Commandant of the Marine Corps has testified,<sup>27</sup> the Marine Corps has had to choose between providing equipment to units preparing to deploy to Iraq and Afghanistan and unit training for other contingencies while also deploying troops to support other operations, such as humanitarian and disaster relief efforts in Pakistan and the Philippines, Theater Security Cooperation events in Central America and parts of Africa, and protecting our embassies. Until the services' reset implementation strategies target shortages of equipment needed to equip units preparing for deployment and ensure that those units are given priority over longer-term equipment needs, the Army and Marine Corps will be unable to minimize operational risk by ensuring that the needs of deploying units can be met.

We are recommending that the Secretary of Defense direct the Under Secretary of Defense, Comptroller to amend the FMR to require a more detailed accounting of obligations and expenditures within the procurement accounts for equipment reset, similar to the services' reporting of reset obligations and expenditures within the operation and maintenance accounts.<sup>28</sup> We are also recommending that the Secretary of Defense direct the Secretary of the Army and Commandant of the Marine Corps to assess their approaches to equipment reset to ensure that their priorities address equipment shortages in the near term to minimize operational risk and meet the needs of deploying units.

In commenting on a draft of this report, the department did not agree with either of our two recommendations. DOD stated that formalizing procedures by amending the FMR would be unwieldy and cost prohibitive and that creating additional line items for each procurement program would add complexity and duplication to existing reports. The intent of our recommendation is not that the department create a complex accounting system within each procurement account. Rather, we are

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<sup>27</sup>*Marine Posture Statement*, Statement before the Senate Committee on Armed Services, 110th Cong. (2007) (statement of Gen. James T. Conway, Commandant of the Marine Corps).

<sup>28</sup>In response to a recommendation from a GAO report ([GAO-05-293](#)), DOD modified its *Cost of War* report to break down into further detail the operation and maintenance reconstitution category into field-, intermediate-, and depot-level maintenance. According to an OSD official, in January 2007, DOD amended its financial management regulations to establish reset-specific categories within operation and maintenance (i.e., field-, intermediate-, and depot-level maintenance) and one overall reset-specific category within procurement.

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recommending that the department report reset obligations and expenditures at the sub-cost category level, similar to the operation and maintenance accounts to provide Congress with the visibility it needs to identify the types of equipment that are being procured with the reset funds it appropriates, such as aircraft, vehicles, or communication and electronic equipment. We have modified our recommendation to be clearer as to the level of detail we are recommending for the reporting of obligations and expenditures in the procurement accounts and added a matter for congressional consideration suggesting that Congress should consider directing the Secretary of Defense to direct the Under Secretary of Defense, Comptroller, to amend the FMR. Regarding our second recommendation, DOD stated that there is no need to direct the services to assess their approaches to reset because the services already continually assess their approaches to reset. We continue to believe that the Army's and Marine Corps' equipment reset implementation strategies should target short-term equipment shortages for deploying units and units preparing for deployment rather than long-term modernization goals, which would be more consistent with both the Army's and Marine Corps' definitions and goals for their reset programs. DOD also provided a number of technical comments, which we considered and incorporated as appropriate. DOD's comments and our evaluations are discussed in detail in a later section of this report. DOD's written comments are reprinted in appendix IV.

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## Background

As a result of operations related to OIF, the Army and Marine Corps continue to face an enormous challenge to reset their equipment due to the increased usage of equipment, pace of operations, and amount of equipment to be reset. At the onset of operations in 2003, the Army and Marine Corps deployed with equipment that in some cases was already more than 20 years old. As of January 2007, about 25 percent of the Army's total on-hand wheeled and tracked vehicles and about 19 percent of the Army's rotary wing aircraft were deployed to OIF/ OEF. In addition, in March 2007 the Commandant of the Marine Corps testified that approximately 30 percent of all Marine Corps ground equipment and nearly 25 percent of Marine Corps active duty aviation squadrons are engaged overseas.<sup>29</sup> Most of the Marine Corps equipment is not rotating out of theater at the conclusion of each force rotation due to low equipment

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<sup>29</sup>*Marine Posture Statement*, Statement before the Senate Committee on Armed Services, 110th Cong. (2007) (statement of Gen. James T. Conway, Commandant of the Marine Corps).

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density. Appendix III provides a comparison of Army and Marine Corps ground equipment and rotary aircraft deployed to OIF/OEF to total equipment on hand.

As we stated in our January 2007 testimony,<sup>30</sup> the services are operating this equipment at a pace well in excess of peacetime operations. The harsh operating environments in Iraq and environmental factors such as heat, sand, and dust have taken a toll on sensitive components. Troop levels and the duration of operations are also factors that affect funding requirements. Army officials have recently testified that the Army's truck fleet is experiencing an operational tempo that is five to six times the peacetime rate, causing excessive wear that is further exacerbated by the addition of heavy armor kits required to enhance force protection.<sup>31</sup> Marine Corps officials also testified that ground equipment and rotary wing aircraft are experiencing operational tempos from two to five times the peacetime rate, thus increasing equipment maintenance and replacement costs.<sup>32</sup>

The Army generally defines equipment reset as the repair,<sup>33</sup> recapitalization, or replacement of equipment in accordance with the standardized definition OSD and the services began using in 2006.<sup>34</sup> Repairs can be made at the field level or sustainment (depot) level. Army

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<sup>30</sup> [GAO-07-439T](#).

<sup>31</sup> *Army Equipment Reset*, Gen. Charles Anderson, Director Force Development, Army G-8, et al., Statement before the House Committee on Armed Services, Subcommittees on Readiness and Air and Land Forces (Jan. 31, 2007).

<sup>32</sup> *U.S. Marine Corps and U.S. Navy Reset Requirements*, Statement before the House Committee on Armed Services, Subcommittees on Readiness and Seapower and Expeditionary Forces, 110th Cong. (2007) (statement of Lt. Gen. Emerson N. Gardner, Jr., Deputy Commandant Programs and Resources, U.S. Marine Corps).

<sup>33</sup> Repair includes the special technical inspection and repair of aircraft.

<sup>34</sup> According to an OSD official, during the summer of 2006, OSD and the services began using a standardized definition of reset. Reset is defined as actions taken to restore units to a desired level of combat capability with the units' future mission. It encompasses maintenance and supply activities that restore and enhance combat capability to unit and pre-positioned equipment that was destroyed, damaged, stressed, or worn out beyond economic repair due to combat operations by repairing or rebuilding the equipment or procuring replacement equipment. Included are major repairs/overhauls and recapitalization (rebuild or upgrade) funded by procurement; research, development, test, and evaluation; and operation and maintenance that enhance existing equipment through the insertion of new technology or restore selected equipment to a zero-miles/zero-hours condition.

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field level maintenance is intended to bring equipment back to the 10/20 series Technical Manual standard, and is usually performed at installations where the equipment is stationed.<sup>35</sup> Sustainment-level maintenance is work performed on equipment that exceeds field-level reset capabilities. Sustainment-level maintenance may be done at Army depots by contractors, by installation maintenance activities, or a combination of the three, and is coordinated by the Army Materiel Command. Army officials testified in January 2007 that from the beginning of combat operations through the end of fiscal year 2006, the Army has reset more than 200,000 pieces of equipment and plans to reset about 117,000 major items of equipment in fiscal year 2007.

The Marine Corps initially defined equipment reset as restoring/enhancing combat capability to its pre-OIF/OEF condition and included recapitalization, reconstitution, and modernization of equipment.<sup>36</sup> The Commandant of the Marine Corps recently testified that the Marine Corps moved depot maintenance and attrition losses from cost of war<sup>37</sup> to reset, which increased its fiscal year 2007 reset estimate, following the adoption of the standardized definition of reset costs across the services during the summer of 2006.<sup>38</sup> Reset estimates are in addition to cost of war estimates. Equipment returning from combat theaters is evaluated and transported to either a maintenance depot or to a Marine Corps unit's home station for repair. Equipment is repaired to a "Code A" condition, which means that the unit restores a majority of the usable life remaining on all major components or to like-new condition but is not considered to be in a zero-miles/zero-hours condition.

Recapitalization includes rebuilding or repairing equipment to a level that improves the performance capabilities of the equipment or returns the

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<sup>35</sup> Army reset cost estimates do not include contractor logistics support for equipment readiness, field-level maintenance required to keep equipment operational, or the replacement of ammunition.

<sup>36</sup> The Marine Corps reset model further breaks down recapitalization, reconstitution, and modernization into a total of 16 categories, for example, pre-positioned equipment. See app. II for a complete list of the 16 reset categories.

<sup>37</sup> Costs of war are the costs associated with personnel, personnel support, operations, and transportation.

<sup>38</sup> *Marine Posture Statement*, Statement before the Senate Committee on Armed Services, 110th Cong. (2007) (statement of Gen. James T. Conway, Commandant of the Marine Corps).

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equipment to a zero-miles/zero-hours level. The objectives of the Army's recapitalization process include extending equipment service life; reducing operating and support costs; enhancing capability; and improving system reliability, maintainability, safety, and efficiency. The Army recapitalizes equipment either at depots/arsenals with Army Materiel Command, the original equipment manufacturer, or a partnership of the two overseeing operations. The Marine Corps has established a principle end item rotation plan, which essentially rebuilds equipment and extends its service life. This maintenance is done at the depot level.

Replacement is the procurement of new equipment to replace battle losses, washouts, and critical equipment deployed and left in theater but needed for homeland defense and homeland security and other critical missions. Army officials recently testified that the Army is replacing and upgrading more than 50,000 pieces of equipment in fiscal year 2007. The types of equipment the Army plans to replace range from Apache, Black Hawk, and Chinook helicopters; ground combat vehicles such as Abrams Tanks and Bradleys; and wheeled vehicles such as Strykers and HMMWVs. The Army's fiscal year 2007 requirement for procurement or investment of major items of equipment is \$8.5 billion, which includes \$2.5 billion to replace reserve component equipment left in theater as theater-provided equipment.<sup>39</sup> Marine Corps officials testified<sup>40</sup> that a significant portion of their reset requirement is for the replacement of equipment. For example, of the total \$10.2 billion requirement, the Marine Corps has received \$8.8 billion from fiscal year 2006 through fiscal year 2007 for procurement of new equipment.

Army and Marine Corps reset funding generally includes ground and aviation equipment, combat losses, and pre-positioned equipment. The services fund field-level and some depot-level maintenance from the operation and maintenance appropriations, while procurement appropriations fund most recapitalization and all procurement of new equipment as part of reset. The Army's fiscal year 2007 reset execution

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<sup>39</sup>Theater-provided equipment includes major equipment items, such as up-armored HMMWVs left in theater by units returning to the United States and retained in theater to hand off to follow-on units. The Army has designated these items as critical for OIF/OEF missions.

<sup>40</sup>*U.S. Marine Corps and U.S. Navy Reset Requirements*, Statement before the House Committee on Armed Services, Subcommittees on Readiness and Seapower and Expeditionary Forces, 110th Cong. (2007) (statement of Lt. Gen. Emerson N. Gardner, Jr., Deputy Commandant Programs and Resources, U.S. Marine Corps).

plan includes about 46 percent operation and maintenance funding and 54 percent procurement funding, while the Marine Corps plan includes about 16 percent operation and maintenance funding and 84 percent procurement funding. Table 1 provides a breakdown of Army and Marine Corps reset execution funding plans for fiscal year 2007.

**Table 1: Breakdown of Army and Marine Corps Fiscal Year 2007 Reset Execution Funding Plans**

Reset category	Army		Marine Corps	
	Dollars in billions	Percentage of total	Dollars in billions <sup>a</sup>	Percentage of total
Repair (operation and maintenance)	\$7.8	46	\$0.9	16
Field-level maintenance	3.7			
Sustainment-level maintenance	4.1			
Recapitalization	4.3	25		
Rebuild (operation and maintenance)	0.7			
Upgrade (procurement)	3.6			
Replacement procurement)	5.0	29	4.9	84
<b>Total FY 07 funding<sup>b</sup></b>	<b>\$17.1</b>	<b>100</b>	<b>\$5.8</b>	<b>100</b>

Sources: Army G-8 and Marine Corps' Programs and Resources Contingency Cell.

<sup>a</sup>Total \$5.8 billion reset funding includes \$0.7 billion initially appropriated for procurement of Mine Resistant Ambush Protected vehicles (MRAP) that was later reclassified as a cost of war, not reset.

<sup>b</sup>Army and Marine Corps reset funding includes funding for ground and aviation equipment, combat losses, and pre-positioned equipment. In addition to operation and maintenance and procurement appropriations, the Marine Corps also receive funds from Operation and Maintenance Navy, Navy Aircraft Procurement, Navy Weapons Procurement, and Navy Other Procurement appropriation accounts. The Marine Corps reset funding also includes about \$8 million from the Research and Development appropriation account.

The services' fiscal year 2007 reset execution plans reflect assumptions made about the condition of equipment at the end of operations and each service's equipping philosophy. For example, prior to OIF/OEF, Army units traditionally deployed and redeployed with their own equipment sets and rotated equipment back to the United States when equipment required repairs that exceeded field-level maintenance capabilities. After operations began, the Army developed and implemented initiatives to keep large amounts of equipment in theater (known as theater-provided

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equipment) in order to maintain high equipment readiness rates for combat units and improve availability of equipment in theater. The Army calculates reset funding requirements each year based on the projected amount of equipment returning during the following fiscal year that can be repaired in that fiscal year and on the documented losses that have occurred. Army officials estimate that about 15 percent of equipment will be recapitalized or replaced and about 85 percent will be repaired after operations cease. In contrast, the Marine Corps, as an expeditionary service, traditionally leaves equipment in theater for subsequent rotating forces. Equipment remains in use on a near-continuous basis at an operating tempo that far exceeds normal peacetime usage. Rotation of equipment was not possible after operations began because spare equipment was not available for use while equipment was in depot maintenance. Marine Corps officials recently testified that they have developed a principal end item rotation plan that allows equipment to be sent back to the United States for depot-level maintenance cycles. This rotation plan extends the service life and applies the latest technology available to ensure that the best possible equipment is returned to theater. Marine Corps officials estimate that more than 80 percent of equipment will be replaced and about 20 percent will be repaired after operations cease.

Over the past several years, we have reported on equipment reset concerns, including the lack of equipment program strategies, poor condition of pre-positioned equipment, and challenges related to replacing Army National Guard equipment left in the OIF theater to support ongoing operations. For example, for certain equipment items, the Army and Marine Corps have not developed complete sustainment, modernization, and replacement strategies or identified funding needs for all priority equipment such as the Army's Bradley and Marine Corps' CH-46E Sea Knight helicopter.<sup>41</sup> Also, because DOD has drawn heavily on pre-positioned stocks to support ongoing operations in Iraq, it faces some near-term operational risks should another large-scale conflict emerge.<sup>42</sup> Moreover, Army National Guard inventories have been depleted by strategies requiring large amounts of equipment to be left in theater to equip other units, and the Guard will likely face growing shortages and challenges in regaining readiness for future missions until plans to replace

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<sup>41</sup> [GAO-04-112](#) and [GAO-06-141](#).

<sup>42</sup> [GAO-07-144](#) and [GAO-05-427](#).

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this equipment are implemented and completed.<sup>43</sup> In our report on reliability of contingency operations obligations data, we found that while DOD had taken steps to improve its cost-reporting procedures, lack of transparency and inaccuracies in reported contingency operations obligations continue to exist.<sup>44</sup> Similarly, we have reported that DOD was unable to accurately track and report equipment reconstitution<sup>45</sup> costs in its supplemental budget requests because the services' accounting codes were capturing contingency operations and other obligations that were not incurred exclusively for equipment reconstitution. We recommended that the Secretary of Defense direct the services to develop comprehensive and consistent methods for tracking and reporting equipment reconstitution obligations, which include equipment repair, replacement, and recapitalization, collectively known as reset. In response to our recommendation, DOD has revised its FMR to improve reporting of equipment reconstitution by providing a more detailed breakdown of the equipment reconstitution category within the operation and maintenance account for the monthly *Supplemental and Cost of War Execution Reports* but did not address the procurement accounts. DOD now reports operation and maintenance equipment reconstitution costs by organizational-level maintenance, intermediate-level maintenance, depot-level maintenance, and contractor logistics support. However, until additional actions are taken, such as improving the services' financial systems' ability to track obligations, we stated that our recommendation will not be fully implemented. In addition to these concerns, we also have reported on long-standing concerns about DOD's accounting systems<sup>46</sup> and personnel issues,<sup>47</sup> which could also have an impact on equipment reset. Moreover, Congress has required the Secretary of Defense to submit detailed information on reset expenditures for each of the services with

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<sup>43</sup> [GAO-06-170T](#).

<sup>44</sup> [GAO-07-76](#) and [GAO-05-293](#).

<sup>45</sup> At the time of that report ([GAO-05-293](#)), the term reconstitution was used instead of reset. Reconstitution was defined as units restoring their equipment to a condition that enables them to conduct training exercises, achieve required readiness levels, and prepare for future deployments.

<sup>46</sup> [GAO-06-111](#).

<sup>47</sup> [GAO-05-293](#).

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their annual budget requests as part of the Fiscal Year 2007 National Defense Authorization Act.<sup>48</sup>

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## Army and Marine Corps Do Not Report Expenditures within Procurement Accounts in a Way That Confirms That Funds Appropriated for Reset Are Expended for That Purpose

Although the Army and Marine Corps track and report equipment reset expenditures in the operation and maintenance accounts in detail, they do not report detailed equipment reset expenditures within the procurement accounts in a way that confirms that funds appropriated for reset are expended for that purpose because there is no requirement to report procurement expenditures beyond what is required by the DOD FMR. While the Conference Report accompanying the DOD appropriations act for 2007 directed the Secretary of Defense to periodically provide a detailed accounting of obligations and expenditures of funds provided in Title IX of the act, which includes funds provided for reset, by program and subactivity group<sup>49</sup> and to provide a listing of equipment procured using funds appropriated under Title IX of this act,<sup>50</sup> the Army and Marine Corps are not legally required to provide this more detailed level of accounting. The Army and Marine Corps currently track and report obligations and expenditures at detailed levels within the operation and maintenance accounts, consistent with this guidance. However, despite the fact that they track reset obligations and expenditures in detail within the procurement accounts, they do not report those expenditures at the same level of detail. Between fiscal years 2003 through 2007 the Army received more than \$14 billion in reset funding for procurement of new equipment. The Marine Corps received about \$8 billion from fiscal year 2006 through fiscal year 2007 for procurement of new equipment as well. Army and Marine Corps officials stated that they could provide an historical accounting of those reset obligations and expenditures if required to do so. As we recently testified, as of fiscal year 2007, the Army has begun to track and report obligations and expenditures in its operation and maintenance account, as directed by the Conference Report. According to Army officials, the Army segregates the cost of reset from other costs and tracks expenditures to ensure funds appropriated for this purpose are expended for this purpose. The Army has also designated

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<sup>48</sup> John Warner National Defense Authorization Act for Fiscal Year 2007, Pub. L. No. 109-364, § 323 (2006).

<sup>49</sup> While the Conference Report does not specifically make reference to the operation and maintenance and procurement accounts, these are the two accounts through which DOD funds equipment reset.

<sup>50</sup> H.R. Conf. Rep. No. 109-676, at 359 (2006), which accompanied the Department of Defense Appropriations Act, 2007, Pub. L. No. 109-289 (2006).

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separate codes to capture cost data within the financial accounting system within the operation and maintenance accounts broken down by Army pre-positioned stocks, depot maintenance, recapitalization, aviation special technical inspection and repair, and field maintenance. Each of the Army's commands uses these codes to record the execution of operation and maintenance reset funds. The Defense Finance and Accounting Service collects these reset cost data and provides them to the Army for various reports on the status of reset obligations and expenditures. Unlike the Army, the Marine Corps began tracking reset execution in its operation and maintenance account when it began receiving reset funding in fiscal year 2006. The Marine Corps established a special interest code within its financial management systems to identify operation and maintenance obligations and expenditures related to equipment reset.

Neither the Army's nor the Marine Corps' monthly *Supplemental and Cost of War Execution Reports* further breaks down the procurement accounts similar to the way the services break down the operation and maintenance accounts at the sub-cost category level. Currently, the DOD FMR does not require accounting for reset obligations and expenditures at detailed sub-cost category levels within the procurement accounts.<sup>51</sup> The monthly reports reflect one line item for reset within the procurement accounts. The FMR reset sub-cost category includes the funding for major repairs/overhauls and recapitalization of equipment<sup>52</sup> within the procurement and research, development, test, and evaluation accounts. Table 2 compares sub-cost categories for the operation and maintenance and procurement accounts for the monthly *Supplemental and Cost of War Execution Reports* as prescribed by the Financial Management Regulation.

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<sup>51</sup>DOD Federal Management Regulation, vol. 12, ch. 23, "Contingency Operations Cost Categories and Definitions," § 230406. The reset sub-cost category applicable to procurement funds, 6.1.7, encompasses procurement activities that restore and enhance combat capability to unit and pre-positioned equipment that was destroyed, damaged, stressed, or worn out beyond economic repair due to combat operations by procuring replacement equipment and includes major repairs, overhauls, and recapitalization funded through both procurement and research, development, test, and evaluation.

<sup>52</sup>Recapitalization within the procurement sub-cost category includes rebuilds or upgrades that enhance existing equipment through new technology or restore selected equipment to a zero-miles/zero-hours condition.

**Table 2: Comparison of Army and Marine Corps Sub-cost Categories within the FMR for Operation and Maintenance and Procurement Accounts**

<b>Operation and maintenance sub-cost categories</b>	<b>Procurement sub-cost categories</b>
Reset organizational-level maintenance	Reset
Reset intermediate-level maintenance	
Reset depot-level maintenance	
Reset contractor logistic support	

Sources: DOD Supplemental and Cost of War Execution Reports.

As shown in table 2, the Army and Marine Corps report reset costs at a more detailed level within the operation and maintenance accounts than the procurement accounts. Operation and maintenance reset organizational-level and intermediate-level maintenance includes equipment repairs/overhauls, and reset depot-level maintenance includes equipment rebuilding that would improve performance capabilities or extend the service life of the equipment. Procurement reset funds the replacement or upgrade of equipment.

The Army provides additional monthly reports to Congress detailing the status of procurement reset obligations in total dollars as well as a summary of the number of equipment items replaced or recapitalized; however, it does not provide a breakdown of the dollars associated with those quantities. The Marine Corps does not provide these additional reports because it was not required or requested to provide such reports but could provide reports at the budget line item detail level if requested. The process for tracking the execution of reset funding within the Army's procurement account involves communications with the individual program executive offices and managers for the purchase of equipment included under reset. Funds that come from reset appropriations are designated as such in funding authorization documents that are sent to the program executive offices and managers. Once the program managers receive these funds, they execute the funding according to the specifications outlined in the funding authorization documents. The program managers update and report back to Army headquarters on a monthly basis on the numbers of equipment procured as well as the dollar amounts associated for reset. The Army tracks procurement obligations and expenditures manually outside the financial accounting system. As it has done with the operation and maintenance account, the Marine Corps established a special interest code within its financial management system

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beginning in fiscal year 2006 to identify obligations and expenditures related to equipment reset within the procurement account.

Until the Army and Marine Corps are required to report the obligation and expenditure of funds appropriated for reset in the procurement accounts at a more detailed level, similar to reporting of obligations and expenditures in the operation and maintenance accounts, they will be unable to ensure that these funds are being obligated and expended for equipment reset for deploying units and units deploying to Iraq and Afghanistan instead of other, more long-term equipment needs. Furthermore, Congress will not have the visibility it needs to exercise effective oversight and to determine if the amount of funding appropriated for equipment reset has been most appropriately used for the purposes intended. In addition, because the Army was not required to track the execution of its reset appropriations from the onset of operations, it initially did not have historical execution data<sup>53</sup> upon which to base future cost estimates. As we have reported, historical execution data would provide a basis for estimating future funding needs.<sup>54</sup> The Congressional Budget Office has also testified that better estimates of future reset costs could be provided to Congress if more information was available on expenditures incurred to date.<sup>55</sup> Without historical execution data, the Army must rely on assumptions and models based on its own interpretations of the definition of reset, and may be unable to submit accurate budget requests to obtain future reset funding.

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<sup>53</sup> Army officials initially stated that because they were not required to track execution data at the onset of operations they could not provide that historical data. Subsequently, Army officials provided execution data as of fiscal year 2002 broken down by operation and maintenance (i.e., field-level repair, depot-level repair, Army pre-positioned stock, and recapitalization—rebuild) and procurement (i.e., recapitalization—upgrade and replacement). However, Army officials stated that they had to extrapolate these numbers because the data were not tracked that way at the onset of operations.

<sup>54</sup> [GAO-07-76](#) and [GAO-05-293](#).

<sup>55</sup> Congressional Budget Office, *Issues in Budgeting for Operations in Iraq and the War on Terrorism* (Washington, D.C.: Jan. 18, 2007).

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## Army and Marine Corps Cannot Be Assured That Reset Implementation Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational Requirements

The Army and Marine Corps cannot be assured that their reset implementation strategies will sustain equipment availability for deployed units as well as units preparing for deployment to Iraq and Afghanistan because neither the Army's nor the Marine Corps' reset implementation strategies target shortages of equipment on hand and prioritize needs of units preparing for deployment over longer-term modernization goals.<sup>56</sup> According to the Army's ARFORGEN implementation strategy and reset implementation guidance,<sup>57</sup> the primary goal of reset is to prepare units for deployment and to improve next-to-deploy units' equipment-on-hand levels. However, the Army's reset implementation strategy is not based on aggregate equipment requirements to improve the equipment-on-hand levels of units preparing for deployment to Iraq and Afghanistan. Instead, the Army's reset implementation strategy is based on resetting equipment that it expects will be returning to the United States in a given fiscal year. Similarly, the Marine Corps' reset goal is to ensure that the Corps is equipped to perform both ongoing operations and other future missions; however, more than 80 percent of the Marine Corps' fiscal year 2006 and fiscal year 2007 reset budget requests are for procurement of new equipment that will not be available for many months. Although deployed Army and Marine Corps units and units about to deploy generally report high reported readiness rates, the services have reported a decrease in nondeployed units' reported readiness rates. Furthermore, the Army's and Marine Corps' reset implementation strategies do not ensure that reset of equipment needed to support units that are preparing for deployment are given priority over other longer-term equipment needs, such as equipment modernization in support of the Army's modularity initiative, because reset implementation strategies are not linked to meeting deploying unit equipment needs.

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<sup>56</sup>Equipment reset is one element of the services' overall equipment strategies. For example, the Army leverages all available equipment, such as left behind equipment, theater-provided equipment, and new procurement as part of its overall equipping strategy within the ARFORGEN implementation strategy of which reset is a component. The Marine Corps' SGEWG implements the Commandant's guidance and prioritizes equipment distribution as part of an overall decision-making process employed by the Commandant of the Marine Corps.

<sup>57</sup>Army FRAGO, *FY07 Reset Frago* (Sept. 29, 2006).

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## Reset Implementation Strategies Do Not Target Shortages of Equipment on Hand to Mitigate Operational Risk

The Army and Marine Corps reset implementation strategies do not specifically target shortages of equipment on hand among units preparing for deployment to Iraq and Afghanistan in order to mitigate operational risk.<sup>58</sup> Although deployed Army and Marine Corps units and units about to deploy generally report high reported readiness rates, the services have reported a decrease in nondeployed units' reported readiness rates, in part due to equipment shortages. According to the Army's ARFORGEN implementation strategy and reset implementation guidance,<sup>59</sup> the primary goal of reset is to prepare units for deployment and to improve next-to-deploy units' equipment-on-hand levels. Army officials stated that reset prepares next-to-deploy units for missions that could include either current (e.g., OIF/OEF) or future (e.g., full-spectrum contingency operations) missions. However, as we have testified,<sup>60</sup> some units preparing for deployment have reported shortages of equipment on hand, as well as specific equipment item shortfalls that affect their ability to carry out their missions. For example, according to an Army unit preparing to deploy, the model HMMWVs the unit was given to train with were limited in number and were significantly different from the armored HMMWVs it was expecting to use while in theater. While the Army's plan to recapitalize more than 7,500 (HMMWV) in fiscal year 2007 at a cost of \$455 million may raise overall HMMWV equipment-on-hand levels of nondeployed units in the United States, Army officials have stated that this recapitalization program will not directly provide HMMWVs to train or equip units deploying for OIF missions. This is because the HMMWVs produced by the recapitalization program are unarmored and do not offer adequate force protection, and thus are not being deployed to the OIF theater. Moreover, these HMMWVs have limited training value for deploying units primarily because the unarmored HMMWVs have different handling characteristics and configurations than the armored HMMWVs used in Iraq. In addition, Army<sup>61</sup> and Marine Corps<sup>62</sup> unit commanders

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<sup>58</sup>The Army defines operational risk as the ability to achieve military objectives in a near-term conflict or other contingency.

<sup>59</sup>The Army's fiscal year 2007 framework for reset, FRAGO, provides details on equipment-related reset with the desired end state of rapidly restoring the capability of the Army to meet current and future Combatant Commander operational demands.

<sup>60</sup>[GAO-07-439T](#).

<sup>61</sup>Army Regulation 220-1Field Organizations: Unit Status Reporting (Dec. 19, 2006).

<sup>62</sup>Marine Corps Order P3000.13D, Marine Corps Status of Resources and Training System Standing Operating Procedures (Apr. 17, 2002).

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preparing for deployments may subjectively upgrade their units' overall readiness levels, which may mask the magnitude of equipment shortfalls. For example, some deploying units may report high readiness rates even though unit commanders have noted equipment shortages in the readiness reports' remarks sections with plans to fall in on theater-provided equipment.<sup>63</sup> As we have testified,<sup>64</sup> since 2003, deploying units have continued to subjectively upgrade their overall readiness as they approach their deployment dates, despite decreasing overall readiness levels among those same units. Units can continue to report shortages throughout their training cycles that affect their ability to train. Army leaders have testified to Congress that timely reset of equipment is fundamental to enabling them to sustain their current global commitments as well as prepare for emerging threats. However, since the Army's current reset planning process is based on resetting equipment that it expects will be returning to the United States in a given fiscal year, and is not based on aggregate equipment requirements to improve the equipment-on-hand levels of deploying units, the Army cannot be assured that its reset programs will provide sufficient equipment to train and equip deploying units for ongoing and future requirements.

While the Marine Corps' reset implementation strategy is focused on ensuring that the Marine Corps is equipped to perform both ongoing operations and future missions, their priority for equipment reset is to support deployed forces. This strategy reflects Marine Corps leaders' expectations that short-term deployed unit requirements can be met by using equipment currently deployed to the OIF theater, and that in the long term, much of that deployed equipment will ultimately need to be replaced, based on the expectation that many items will be damaged or degraded beyond economical repair. In order to maintain high mission capable rates for deployed forces and ensure that units preparing to deploy have sufficient equipment to conduct predeployment training programs, the Marine Corps has supplemented the equipment deployed to the OIF theater by drawing additional equipment from its maritime pre-positioning ships and pre-positioned stocks in Norway. In addition, it

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<sup>63</sup> Army and Marine Corps commanders report readiness for deployments using "percent effective" ratings that capture the unit commander's overall assessment of his/her unit's ability to perform its current mission despite low levels of equipment on hand, equipment serviceability, or personnel readiness categories that would result in lower overall "C-Ratings," which units typically use to report readiness.

<sup>64</sup> [GAO-07-439T](#).

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continues to cross-level and redistribute equipment across the Corps. Actions required to support this strategy have adversely affected readiness of nondeployed units with a decrease in nondeployed Marine Corps unit readiness. As a result, the Marine Corps has had to make trade-offs between unit training for other types of contingencies and units preparing to deploy to OIF. Marine Corps leaders have testified on the critical role that reset plays in ensuring that deployed and nondeployed reported equipment readiness rates remain acceptable. While the reported readiness rates of Marine Corps units deployed to the OIF theater remain high, Marine Corps officials have recognized the need to continue to invest in the readiness of deployed equipment—both through the purchase of replacement equipment and through increased rotation of major deployed equipment items in maintenance facilities in the OIF theater and the United States. The Marine Corps' goal for its reset funding requests for fiscal year 2006 and fiscal year 2007 was to address the aggregate set of equipment shortfalls created by the impact of OIF and OEF on its equipment inventories. Beginning in fiscal year 2005, the Marine Corps conducted a detailed appraisal of the impact of OIF and OEF on its equipment based on a set of business rules and assumptions on what types of shortfalls could be included in its reset estimate, and like the Army, made item-by-item decisions on whether to repair, recapitalize, or replace each item. Its final reset requirement addressed three major categories of equipment needs: requirements to replace equipment committed to OIF operations in Iraq, Afghanistan, and the Horn of Africa as well as related shortfalls in the United States; reconstitution of pre-positioned equipment and other strategic reserves; and modernization requirements to provide equipment needed to support OIF-related force structure needs, such as special units created to train Iraqi forces and other foreign military forces. Reflecting the emphasis on replacing equipment, more than 80 percent of the Marine Corps' reset funding for fiscal years 2006 and 2007 is for procurement.<sup>65</sup>

Until the services' reset implementation strategies target shortages of equipment needed to equip units preparing for deployment, the Army and Marine Corps will be unable to minimize operational risk by ensuring that the needs of deploying units can be met.

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<sup>65</sup> According to DOD officials, the level of spending on replacement versus recapitalization is high because of low equipment density.

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## Reset Implementation Strategies Do Not Give Priority to Deploying Unit Equipment Needs over Longer-Term Equipment Needs

The Army's and Marine Corps' reset implementation strategies do not ensure that the repairing, replacing, and recapitalization of equipment needed to support units that are preparing for deployment are being given priority over other longer-term equipment needs because reset implementation strategies are not linked to meeting deploying unit equipment needs. Although Army reset implementation strategies are primarily based on plans for repairing, recapitalizing, or replacing equipment returning from overseas theaters in a given fiscal year, the Army's reset strategy also has included funding requests for certain items to accelerate achieving longer-term strategic goals under the Army's modularity initiative. For example, in addition to the planned fiscal year 2007 sustainment-level reset of almost 500 tanks and more than 300 Bradleys expected to return from the OIF theater, the Army also intends to spend approximately \$2.4 billion in fiscal year 2007 reset funds to take more than 400 Abrams Tanks and more than 500 Bradleys from long-term storage or from units that have already received modernized Bradleys for depot-level upgrades. These recapitalizations will allow the Army to accelerate its progress in achieving a modular force structure<sup>66</sup> by providing modernized Abrams Tanks and Bradleys to several major combat units 1 or 2 years ahead of schedule. Army officials believe achieving these modularity milestones for Abrams Tanks and Bradleys will achieve greater commonality in platforms and reduce overall logistical and financial requirements by reducing the number of variants that must be supported. However, accelerating modernization programs to achieve a modular force structure may be sacrificing short-term needs for longer-term goals.

The Marine Corps' reset planning process does not include an evaluation of trade-offs between the shorter-term need to improve the degraded readiness of Marine Corps units in the United States against longer-term requirements for procurement to replace deployed items that may not affect readiness for some time.<sup>67</sup> For example, the Marine Corps has requested supplemental appropriations to procure 3,700 MRAPs to replace

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<sup>66</sup>The Army Modular Heavy Brigade Combat Team (HBCT) force structure calls for 31 HBCTs equipped with combinations of two different types of Abrams Tanks and Bradleys. Seventeen HBCTs would be equipped with the digitized Abrams M1A2 System Enhancement Program Tanks and digitized M2A3 Bradleys. The remaining 14 HBCTs would be equipped with the Abrams M1A1 Integrated Management Tanks and Bradley Operation Desert Storm upgraded vehicles.

<sup>67</sup>According to DOD officials, the Marine Corps' reset strategy of replacement versus recapitalization is high because of low equipment density.

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HMMWVs, while also planning to procure additional HMMWVs as part of reset to replace older variants and deployed A2 HMMWVs severely degraded due to OIF missions.<sup>68</sup> However, many of these HMMWVs will not be fielded for more than 2 years. In the short term, the Marine Corps needs the MRAPs for increased force protection while the requirement for HMMWV replacements will continue beyond OIF/OEF. Until reset implementation strategies are linked to equipment needs of deploying units, the Army and Marine Corps will be unable to prioritize their reset plans and funding to ensure that the short-term needs of deploying units can be met.

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## Conclusions

Since fiscal year 2002, Congress has appropriated more than \$38 billion for Army equipment reset and about \$10.9 billion for the Marine Corps. In addition, the Army estimates that future funding requirements for equipment reset will be about \$12 billion to \$13 billion per year for the foreseeable future. The Marine Corp estimates that its future funding requirements for equipment reset will be about \$2 billion to \$3 billion. At a time when the nation faces increased financial constraints, it is important for both DOD and Congress to be in a position to weigh the trade-offs between competing requirements and risk associated with degraded equipment readiness, so that they can make sound investment decisions on the use of the reset funding. Until the Army and Marine Corps are required to report the obligation and expenditure of funds appropriated for reset in the procurement accounts at a more detailed level, similar to reporting of obligations and expenditures for the operation and maintenance accounts, they will be unable to ensure that these funds are being obligated and expended for equipment reset for deploying units and units deploying to Iraq and Afghanistan instead of other, more long-term equipment needs. Furthermore, Congress will not have the visibility it needs to exercise effective oversight and to determine if the amount of funding appropriated for equipment reset has been most appropriately used for the purposes intended.

The Army's and Marine Corps' reset implementation strategies need to ensure that priority is given to repairing, replacing, and modernizing the equipment that is needed to equip units preparing for deployment to Iraq and Afghanistan. The current shortages of equipment on hand for units

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<sup>68</sup>According to DOD officials, MRAPs are being procured exclusively for OIF and, as such, are considered a cost of war. Accordingly, the Marine Corps reclassified \$0.7 billion of fiscal year 2007 reset funding as cost of war funding.

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that are preparing for deployment could potentially decrease overall force readiness if equipment availability shortages are not filled prior to these units' deployments. Without prioritizing reset implementation strategies and funding so that shortages of equipment on hand are targeted, the Army and Marine Corps will be unable to minimize operational risk by ensuring they maintain their ability to equip deploying units. Until reset implementation strategies are linked to equipment needs of deploying units, the Army and Marine Corps will be unable to prioritize their reset plans and funding to ensure that the short-term needs of deploying units are filled. Furthermore, as the Army and Marine Corps move forward with equipment reset, they will need to establish more transparent linkages among the objectives of their reset implementation strategies, the funds requested for reset, the obligation and expenditure of appropriated reset funds in both the operation and maintenance and procurement accounts, and equipment requirements and related priorities.

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## Recommendations for Executive Action

We are making the following two recommendations.

To provide Congress with the visibility it needs to exercise effective oversight and to determine if the funding appropriated for equipment replacement and recapitalization within the procurement accounts has been most appropriately used for the purposes intended, we recommend that the Secretary of Defense direct the Under Secretary of Defense, Comptroller, to amend the FMR to require that the monthly *Supplemental and Cost of War Execution Reports* identify expenditures within the procurement accounts for equipment reset at more detailed sub-cost category levels, similar to reporting of obligations and expenditures in the operation and maintenance accounts.

To ensure that the Army's and Marine Corps' reset implementation strategies target shortages of equipment needed to equip units preparing for deployment to Iraq and Afghanistan, we recommend that the Secretary of Defense direct the Secretary of the Army and Commandant of the Marine Corps to assess their approaches to equipment reset to ensure that their priorities address equipment shortages in the near term to minimize operational risk and ensure that the needs of deploying units can be met.

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## Matter for Congressional Consideration

Congress should consider directing the Secretary of Defense to direct the Under Secretary of Defense, Comptroller to amend the FMR in order to require a more detailed accounting of reset obligations and expenditures within the procurement accounts, similar to the department's reporting of reset obligations and expenditures within the operation and maintenance accounts. Specifically, as stated in our recommendations, the reporting of

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reset obligations and expenditures within the procurement accounts at more detailed sub-cost category levels would enhance the monthly *Supplemental and Cost of War Execution Reports* as well as provide greater visibility to Congress for exercising effective oversight and determining if the amount of funding appropriated for equipment reset has been most appropriately used for the purposes intended.

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## Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD did not concur with our two recommendations. DOD's written comments are reprinted in appendix IV.

Regarding the first recommendation that DOD direct the Office of Secretary of Defense, Comptroller, to amend the FMR to provide for a more detailed accounting of obligations and expenditures within the procurement accounts for equipment reset to enhance monthly *Supplemental and Cost of War Execution Reports*, DOD did not concur and stated that formalizing procedures at the DOD level through amending the FMR would be unwieldy and cost prohibitive. The department believes that the creation of additional detailed line items for each program involved in reset would add too much complexity and duplication to existing reports. DOD also stated that a single line item in each procurement account for all equipment reset, similar to the operation and maintenance account, would not adequately describe the individual equipment undergoing reset, whether replacement or overhaul. The intent of the recommendation is not that the department creates a complex accounting system within each procurement account. Rather, we are recommending that the department report reset obligations and expenditures at more detailed sub-cost category levels, similar to the operation and maintenance accounts, to provide Congress with the visibility it needs to identify the types of equipment that are being procured with the reset funds it appropriates, such as aircraft, vehicles, or communication and electronic equipment. We have modified our recommendation to be clearer as to the level of detail we are recommending for the reporting of obligations and expenditures in the procurement accounts.

While the department believes handling the procurement accounts in the same manner as the operation and maintenance accounts would not be informative because the procurement accounts are considerably more complex than the operation and maintenance accounts, we continue to believe that the department should amend the DOD FMR to incorporate a more detailed breakdown of the procurement accounts similar to the way the Army and Marine Corps already track and report those obligations and

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expenditures in the operation and maintenance accounts. DOD further cited an alternative accounting method it is pursuing with the Defense Finance and Accounting Service, which DOD believes may increase visibility within the procurement account but not at the individual item level. However, DOD officials did not provide documentation on this new proposed accounting method when we requested it.

Furthermore, subsequent to receiving agency comments, we noted that the June 2007 *Supplemental and Cost of War Execution Report*, received in mid-August, reflected a more detailed reporting of procurement sub-cost categories similar to what was suggested in our recommendation. According to DOD officials, this is an out-of-cycle change to improve visibility of reset and other program details related to GWOT. The FMR does not reflect this change nor does it define the new sub-cost categories. Consequently, we were unable to determine what funding was included in each sub-cost category. We believe that requiring a more detailed accounting of obligations and expenditures within the procurement accounts at the sub-cost category level, similar to reporting of obligations and expenditures in the operation and maintenance accounts, would provide Congress the visibility it needs to exercise effective oversight and determine if the amount of reset funding appropriated for equipment replacement and recapitalization is most appropriately used for the purposes intended. Army and Marine Corps officials have stated that they are currently able to track reset obligations and expenditures within the procurement accounts and already provide a similar level of detail in their budget justifications. Because the department did not agree with our recommendation, we have added a matter for congressional consideration suggesting that Congress should consider directing the Secretary of Defense to direct the Under Secretary of Defense, Comptroller, to amend the FMR in order to require a more detailed accounting of reset obligations and expenditures within the procurement accounts as is done within the operation and maintenance accounts. Specifically, as stated in our recommendations, a more detailed accounting of obligations and expenditures within the procurement accounts would enhance monthly *Supplemental and Cost of War Execution Reports* as well as provide greater visibility to Congress to exercise effective oversight and determine if the funding provided for reset within the procurement accounts is most appropriately used for the purposes intended.

In response to our second recommendation that the Secretary of Defense direct the Secretary of the Army and Commandant of the Marine Corps to assess their approaches to equipment reset to ensure that their priorities

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address equipment shortages in the near term to minimize operational risk and ensure that the needs of deploying units can be met, DOD did not concur, stating that there is no need to direct the services to assess their approaches to reset because the services already continually assess their approaches to equipment reset. The department believes that the Army's overall equipping strategy, of which reset is a component, along with its prioritization scheme (the Dynamic Army Resource Priority List) address equipment shortages in the near term to equip units that are deployed or deploying. The department also stated in its comments that the Marine Corps employs a documented, standardized, and flexible reset strategy designed to meet both current operational requirements and long-term reconstitution strategies. While we acknowledge that reset is only one component of the services' overall equipping strategies and that the services have stated that their overall equipping strategies ensure that deployed units or deploying units are equipped as required, as we stated in our report, the Army's primary goal for equipment reset is to prepare units for deployment and to improve next-to-deploy units' equipment-on-hand levels, and the Marine Corps' priority for equipment reset is to support deployed forces. However, the Army's and Marine Corps' implementation of their reset strategies do not necessarily address shortages of equipment in the short term. Instead, the Army's implementation of its reset strategy is based on plans for repairing, recapitalizing, or replacing equipment returning from overseas theaters in a given fiscal year, while the Marine Corps' implementation of its reset strategy is based on ensuring that Marine Corps units are equipped to perform both ongoing operations and other future missions. Congress has appropriated tens of billions of dollars since fiscal year 2002 specifically to address equipment reset concerns raised by the Army and Marine Corps about equipment degraded by military operations in Iraq and Afghanistan. However, as we stated in our report, the Army planned to spend \$2.4 billion in fiscal year 2007 reset funding to take more than 400 Abrams Tanks and more than 500 Bradleys from long-term storage for depot-level upgrades, which would accelerate its modernization program by 1 to 2 years. As we stated in our report, the Army's primary goal for equipment reset is to prepare units for deployment and to improve next-to-deploy units' equipment-on-hand levels. Thus, we believe reset funding should address shortages of equipment needed to equip deploying units and units preparing for deployment rather than accelerating modernization programs in general by procuring equipment, which may not be available for several years, for other equipment strategies such as homeland defense and homeland security. Therefore, we continue to believe our recommendation is appropriate and relevant.

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Lastly, DOD provided technical comments to improve the accuracy and clarity of the report, which we have reviewed and incorporated in the report as appropriate. DOD's specific comments and our responses to them are discussed in detail in appendix IV. In summary, DOD disagreed with our statements regarding reporting requirements for funds appropriated for equipment reset through operation and maintenance and procurement appropriations and Army and Marine Corps equipment reset implementation strategies. While we agree that DOD is currently not required to itemize the types of equipment replaced or recapitalized within the procurement accounts, we continue to believe that the Conference Report accompanying the DOD appropriations act for 2007 directed the Secretary of Defense to periodically provide a detailed accounting of reset obligations and expenditures of funds provided in Title IX of the act, which includes funds for reset, by program and subactivity group and to provide a listing of equipment procured using funds appropriated under Title IX of the act. Furthermore, we believe that detailed reporting of reset obligations and expenditures within the procurement accounts would provide Congress with the visibility it needs to exercise effective oversight over reset funding. Similarly, while we agree that reset is only one component of the Army and Marine Corps overall equipping strategies, we continue to believe Army and Marine Corps reset implementation strategies should target shortages of equipment needed to equip units preparing for deployment to Iraq and Afghanistan in the near term rather than using supplemental reset appropriations to fund longer-term modernization goals.

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We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Secretary of the Army, and the Commandant of the Marine Corps. We will also make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

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If you or your staff has any questions, please contact me at (202) 512-8365 or [solisw@gao.gov](mailto:solisw@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.

A handwritten signature in black ink, appearing to read 'W. Solis', with a long horizontal flourish extending to the right.

William M. Solis  
Director, Defense Capabilities and Management

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*List of Congressional Committees*

The Honorable Carl Levin  
Chairman  
The Honorable John McCain  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable Daniel K. Inouye  
Chairman  
The Honorable Ted Stevens  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
United States Senate

The Honorable Ike Skelton  
Chairman  
The Honorable Duncan L. Hunter  
Ranking Member  
Committee on Armed Services  
House of Representatives

The Honorable John P. Murtha  
Chairman  
The Honorable C.W. Bill Young  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

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# Appendix I: Scope and Methodology

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To determine the extent to which the Army and the Marine Corps can track and report equipment reset expenditures in a way that confirms that funds appropriated for reset are expended for that purpose, we examined equipment reset funding requests submitted by the Army and the Marine Corps and amounts appropriated by Congress to the services for reset for fiscal years 2002 through 2007.<sup>1</sup> We collected data related to equipment reset cost estimates and met with Army and Marine Corps headquarters officials to discuss the services' definitions of reset and their reset assumptions. We reviewed reported obligations and expenditures and budget estimates for Army and Marine Corps equipment reset funding and determined that the reliability of these data was sufficient for our purposes. We also met with Army Budget Office and Marine Corps Programs and Resources officials to discuss and collect documentation on how their financial management systems track and report reset costs.

To address whether the Army and Marine Corps can be assured that their equipment reset implementation strategies will sustain future equipment readiness for deployed as well as nondeployed units while meeting ongoing requirements, we examined the processes the services used to develop their reset funding requests and plans, as well as policies in place to execute reset. We did not review the services' overall equipping implementation strategies. To compare planned equipment reset activities to the Army's and Marine Corps' equipment requirements, we developed equipment profiles for five equipment items.<sup>2</sup> These equipment items were identified by service officials as well as previous GAO reports as items critical to ongoing operations. In addition, we selected these items based on the large number of vehicles that have gone through multiple rotations or have been in constant use in the Operation Iraqi Freedom (OIF) theater and because most of these equipment items may be undergoing repair, replacement, or recapitalization simultaneously. We conducted interviews and discussions with officials from Army Tank-automotive and Armaments Command and program managers for the various equipment items. Our review included only major end items, primarily ground equipment and rotary aircraft. We reviewed inventory numbers, location of equipment (e.g., items deployed and nondeployed), and acquisition plans for future procurement of new equipment. We also collected and analyzed Army and Marine Corps readiness data.

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<sup>1</sup>The Marine Corps began receiving reset funding in fiscal year 2002. Prior to fiscal year 2002, the Marine Corps used the term reconstitution.

<sup>2</sup>The five equipment items we profiled are the M1 Tank, Bradley Fighting Vehicle (Army only), High Mobility Multi-Purpose Wheeled Vehicle, Heavy Expanded Mobility Tactical Truck (Army only), and the Marine Corps CH-53E helicopter.

For work under both objectives, we held discussions at service headquarters, met with officials from commands responsible for executing reset programs, met with an Army division preparing to deploy to Iraq in 2007, and met with officials in the Office of the Secretary of Defense to discuss overall reset policies and programs.<sup>3</sup> We reviewed reported obligations and expenditures and budget estimates for Army and Marine Corps equipment reset funding and determined that the reliability of these data was sufficient for our purposes.

We performed our work from October 2005 through April 2007 in accordance with generally accepted government auditing standards.

We interviewed officials, and obtained documentation when applicable, at the following locations:

- U.S. Army Headquarters, Washington, D.C.
- Army Budget Office, Pentagon, Virginia
- U.S. Army Materiel Command, Fort Belvoir, Virginia
- U.S. Army Forces Command, Fort McPherson, Georgia
- U.S. Army 3rd Infantry Division, Fort Stewart, Georgia
- Institute for Defense Analysis, Alexandria, Virginia
- U.S. Army National Guard, Arlington, Virginia
- U.S. Army Tank-automotive and Armaments Command Headquarters, Warren, Michigan
- U.S. Marine Corps Headquarters, Washington, D.C.
- Marine Corps Programs and Resources, Pentagon, Virginia
- Office of the Secretary of Defense, Washington, D.C.

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<sup>3</sup>GAO-06-141.

# Appendix II: Marine Corps Reset Categories

Category	Definition
OIF equipment density list (EDL)	Unit list of combat, combat support, and combat service support equipment that is authorized/required by MARCENT for operations in the CENTCOM Area of responsibility (AOR).
Operation Enduring Freedom (OEF) EDL	Unit list of combat, combat support, and combat service support equipment that is authorized/required by MARCENT for operations in the CENTCOM AOR.
Joint Task Force Horn of Africa (HOA) EDL	Unit list of combat, combat support, and combat service support equipment that is authorized/required by MARCENT for operations in the CENTCOM AOR.
Home station shortfalls	Equipment that was removed from a facility/activity in order to support operations in the CENTCOM AOR and therefore results in a shortfall that cannot be addressed from remaining inventory. The equipment is essential for the facility/activity to achieve its training objectives, mission readiness, or both prior to deploying to the CENTCOM AOR. A home station is the garrison location, usually in the continental United States, for a unit that is not deployed for training or operational mission requirements.
Training system shortfalls	Equipment that was removed from a training facility/activity in order to support operations in the CENTCOM AOR and therefore results in a shortfall that cannot be addressed from remaining inventory. The equipment is essential for the facility/activity to achieve its training goals/objectives.
Global War on Terror (GWOT) support equipment	Other GWOT-related equipment requirements (e.g., vehicle armoring and commercialization of communications equipment in Iraq).
Combat losses	Equipment that was destroyed as a result of use in support of OIF, OEF, or HOA.
Not complete combat losses	Equipment that was damaged not beyond economical repair as a result of use in support of OIF, OEF, or HOA.
Pre-positioned equipment	Comprises two different sets of equipment: Maritime Prepositioning Ships (MPS) and Marine Corps Prepositioning Program – Norway (MCPN). Any equipment off-loaded from MPS or sourced from stores (MCPN) being used in support of GWOT operations that must be procured for reconstitution of those strategic assets.
Depot maintenance afloat allowance (DMFA)	A pool of assets used to exchange serviceable for unserviceable equipment. The use of 30 percent of Marine Corps ground equipment and 25 percent of aviation assets in OIF/OEF has resulted in a situation where the rotatable pool of equipment used to sustain depot rework inductions is no longer available and must be restored to continue timely equipment restoration efforts. Selected equipment in critical demand/low density was identified in the DMFA component of the reset estimate.
Net war reserve material requirements	Equipment required to reconstitute war reserve material consumed or used in support of OIF, OEF, or HOA.
Force Structure Review Group	This initiative involves a rebalancing of the force to provide optimal capabilities and force structure to prosecute the GWOT. Additional funds are required to access, train, equip, and house the new units and capabilities. If funding is not received it will delay the availability of the required capabilities necessary to successfully prosecute the GWOT until the fiscal year 2008-2010 time frame.
Iraqi training teams	Equipment procured for transition training of Iraqi Security Forces.
Foreign military training units	Equipment procured for units specifically designated to train foreign security forces, excluding Iraqi Security Forces.

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**Appendix II: Marine Corps Reset Categories**

Category	Definition
Urgent universal needs statements (UUNS)	Equipment determined critical for mission contingency accomplishment that is not already included in a deploying unit's table of allowance or available in the existing inventory for which an urgent need exists such that expedited fielding is required (e.g., explosive ordnance disposal robots and X-Ray Backscatter machines for checkpoints). All UUNS requests are validated/approved by the Marine Corps Oversight Council.
Operational enhancements	Modernization requirements recommended by the Marine Corps Equipment Review Group. This includes equipment that is an update to the existing Marine Corps table of equipment (T/E) that increases capability over current gear, which enhances individual warfighter effectiveness, mission performance, and unit readiness. The equipment procured will replace existing unit T/E items.
Modernization	Replacing legacy equipment with new, updated, and different capabilities (e.g., Advanced Combat Optical Gunsights where no rifle optics existed before).

Source: Appendix 2 of the U.S. Marine Corps' RESET Report to the House Appropriations Committee.

# Appendix III: Army and Marine Corps Ground Equipment and Rotary Aircraft Deployed and Total Equipment on Hand as of March 2007

Tables 3 and 4 show the Army's and the Marine Corps' ground equipment and rotary aircraft deployed to OIF/OEF compared to the total equipment on hand as of March 2007.

**Table 3: Army Equipment Deployed to OIF/OEF and Total Equipment on Hand as of March 2007**

Items	Equipment inventory	Deployed inventory	Percentage deployed
<b>Wheeled vehicles</b>			
HEMTT	12,836	3,282	25.6
HET	2,394	912	38.1
HMMWV	95,970	23,818	24.8
<b>Tracked vehicles</b>			
Bradley Fighting Vehicle	3,021	679	22.5
Abrams Tank	3,406	366	10.7
M88	1,832	192	10.5
<b>Wheeled/tracked vehicles total</b>	<b>119,459</b>	<b>29,249</b>	<b>24.5</b>
<b>Rotary wing aircraft</b>			
AH-64A/D	689	120	17.4
CH-47D	392	63	16.1
OH-58D	354	60	16.9
UH-60A/L	1,362	293	21.5
<b>Rotary wing aircraft total</b>	<b>2,797</b>	<b>536</b>	<b>19.2</b>

Legend: HEMTT = Heavy Expanded Mobility Tactical Truck; HET = Heavy Equipment Transporter; HMMWV = High Mobility Multi-Purpose Wheeled Vehicle.

Source: Army G-8.

**Appendix III: Army and Marine  
Corps Ground Equipment and  
Rotary Aircraft Deployed and  
Total Equipment on Hand as of  
March 2007**

**Table 4: Marine Corps Equipment Deployed to OIF/OEF and Total Equipment on Hand as of March 2007**

Items	Equipment inventory	Deployed inventory	Percentage deployed
<b>Wheeled and tracked combat vehicles (WTCV)</b>			
Amphibious assault vehicle	1,218	95	8
Light armored vehicle	552	70	13
M1A1 Tank	366	34	9
M88 Tank Retriever	59	6	10
Armored vehicle launched bridge	18	0	0
<b>WTCV total</b>	<b>2,213</b>	<b>205</b>	<b>9</b>
<b>Tactical vehicles</b>			
Light tactical vehicle (HMMWV)	15,480	4,207	27
Medium tactical vehicle	6,898	1,189	17
Logistics vehicle system	1,770	251	14
5-ton trucks	663	160	24
<b>Tactical vehicle total</b>	<b>24,811</b>	<b>5,807</b>	<b>23</b>
<b>Support vehicles</b>			
Construction equipment	1,187	217	18
Material handling equipment	2,197	285	13
<b>Support vehicle total</b>	<b>3,384</b>	<b>502</b>	<b>15</b>
<b>Other equipment</b>			
Communication and electronics equipment	155,446	21,617	14
Engineering support items	12,821	2,130	17
Mobile electric power	6,431	988	15
Trailers	12,124	1,520	13
Optics	36,687	19,735	54
Small arms/crew served (excluding M16 rifles and M9 pistols)	25,752	5,209	20
<b>Other equipment total</b>	<b>249,261</b>	<b>51,199</b>	<b>21</b>

Legend: HMMWV = High Mobility Multi-Purpose Wheeled Vehicle.

Source: Marine Corps Programs and Resources.

# Appendix IV: Comments from the Department of Defense

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPUTY UNDER SECRETARY OF DEFENSE FOR  
LOGISTICS AND MATERIEL READINESS  
3500 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3500

AUG -3 2007

Mr. William M. Solis  
Director, Defense Capabilities and Management  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, DC 20548

Dear Mr. Solis:

This is the Department of Defense (DoD) response to the GAO draft report, "DEFENSE LOGISTICS: Army and Marine Corps Cannot Be Assured Equipment Reset Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational Requirements," dated June 20, 2007, (GAO Code 350994/GAO-07-814).

The Department non-concurs with each of the two recommendations. An explanation of the DoD position is enclosed. Additionally, since portions of the draft report supporting the recommendations could be misleading, extensive technical comments are provided to improve the accuracy and clarity of the draft report. The Department appreciates the opportunity to comment on the draft report.

Sincerely,

  
Jack Bell

Enclosure:  
As stated



GAO DRAFT REPORT – DATED JUNE 20, 2007  
GAO CODE 350994/GAO-07-814

**"DEFENSE LOGISTICS: Army and Marine Corps Cannot Be Assured Equipment Reset  
Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational  
Requirements"**

**DEPARTMENT OF DEFENSE COMMENTS  
TO THE RECOMMENDATIONS**

**RECOMMENDATION 1:** The GAO recommends that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to amend the Financial Management Regulation to provide for a more detailed accounting of obligations and expenditures within the procurement accounts for equipment reset to enhance monthly *Supplemental and Cost of War Execution Reports*.

**DOD RESPONSE:** Non-concur. While it is relatively simple to create an Operation and Maintenance sub-activity group to account for the maintenance portion of reset, to handle the procurement appropriations in the same manner would not be informative. Procurement accounts are considerably more complex. A single line item in each procurement appropriation for all equipment reset, similar to the operations account, would not adequately describe the individual equipment undergoing reset, whether replacement or overhaul. The alternative, creation of additional detailed line items for each program involved in reset would add too much complexity and duplication to existing financial reports. The Army and Marine Corps have demonstrated to the GAO that they currently track reset within the procurement accounts, but to formalize these procedures at the DoD level through amending the Financial Management regulation would be unwieldy and cost prohibitive. The Department will continue to stress to the military services the need to account for obligations and expenditures in an accurate and timely manner for those items undergoing equipment reset additionally, we are pursuing an alternative accounting method with The Defense Finance and Accounting Service (DFAS) which may increase visibility within the procurement account but not at the individual item level. The Department will continue to provide Congress with all of the information they feel necessary to justify budget requests.

**RECOMMENDATION 2:** The GAO recommends that the Secretary of Defense direct the Secretary of the Army and the Commandant of the Marine Corps to assess their approaches to equipment reset to ensure that their priorities address equipment shortages in the near term to minimize operational risk and ensure the needs of deploying units can be met.

**DOD RESPONSE:** Non-concur. There is no need for the Secretary of Defense to direct the Secretary of the Army and Commandant of the Marine Corps to assess their approach to reset, they each already continually assess their approaches to equipment reset to ensure that their priorities address equipment shortages in the near term to minimize operational risk and ensure the needs of deploying units can and are being met. The Army's overall equipping strategy, of which reset is a component, along with its prioritization scheme (the Dynamic Army Resource Priority List) addresses equipment shortages in the near term to equip units that are deployed or deploying. Equipping and reset strategies have been effective for the past five years. The Marine Corps employs a documented, standardized, and flexible reset strategy designed to meet both current operational requirements and long-term reconstitution strategies.

GAO DRAFT REPORT – DATED JUNE 20, 2007  
GAO CODE 350994 /GAO-07-814

**"DEFENSE LOGISTICS: Army and Marine Corps Cannot Be Assured Equipment Reset  
Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational  
Requirements"**

**TECHNICAL COMMENTS**

Highlights, first paragraph, first sentence does not accurately reflect what the GAO was told. It should be revised to read:

"...funds appropriated for reset are expended for that purpose because *neither Congress, nor* the DoD Financial Management Regulation..."

Highlights, paragraph 2, sentence 1: "The Army and Marine Corps cannot be assured their reset strategies will sustain equipment availability for deployed units as well as units preparing for deployment to Iraq and Afghanistan while meeting ongoing operational requirements because neither the Army's nor the Marine Corps's reset strategies target shortages of available equipment and prioritize equipment needs of units preparing for deployment over longer-term modernization goals."

The Marine Corps does in fact employ a documented, standardized, and flexible reset strategy designed to meet both current operational requirements and long-term reconstitution strategies. First, regarding the formulation of budget requirements, USMC Programs and Resources (P&R) develops requirements for both short-term operational needs and longer-term reset needs without prejudice or constraint beyond that levied by OSD and Navy guidance. A copy of the Marine Corps "data call letter" for FY 2007, the most pertinent example of the internal funding strategy for reset, detailing such policy is included for support (titled FY07 Call Letter). Specifically note pages 3 through 7, showing categories encompassing both current operations (Cost of War) and reset (Resetting the Force).

Second, tactical level execution of reset, most notably equipment distribution, is also a comprehensive process involving the evaluation of short-term deployment needs and long-term modernization efforts. The Commandant of the Marine Corps prioritizes equipment and manning priorities in a joint message to all Marine Corps commands. The most recent message was published in May 2007 with a date/time group 211734Z (classification of the message is secret and can be provided in the proper environment). A synopsis is attached in an unclassified status (Titled SGEWG Decision Making). This document serves as the basis for equipment distribution prioritization conducted by the Marine Corps's Strategic Ground Equipment Working Group (SGEWG). This group is entrusted specifically with the priority distribution of equipment across Marine Corps units and initiatives. The SGEWG works diligently to ensure that equipment availability for all units remains at an optimum level in both the near term for deployed/deploying units and over the long term to meet our modernization goals. As is noted on the equipment distribution list, pre-deployment training (Mojave Viper, Desert Talon, and Mountain Warrior exercises) is afforded the #1 equipping priority. Likewise, in generalized equipping, operational requirements (OIF, OEF) are given higher priority than longer-term reset initiatives (such as prepositioning reconstitution or filling supporting establishment shortfalls). Furthermore, units preparing to deploy are afforded higher priority than non-deploying units per the Commandant's message. Most importantly, all Marine Corps units are 100% equipped upon arrival in theater.

See comment 1.

See comment 2.

Specifically regarding the operations of the SGEWG, in the general priorities, the Marine Corps does not identify individual units, but treats all units in accordance with their placement in the rotation/deployment pipeline. In the event there is a priority conflict between a specified or general priority, the requirement is returned to Plans, Policies, and Operations division (PP&O) and a decision is made on where we can best accept risk. Discussions on risk are coordinated between all affected commanders before a decision is made. The SGEWG is the venue for working those matters of prioritization and distribution. The CMC prioritization of units, however, is not a waterfall chart - i.e. filling the number one priority before addressing the second priority, etc. The SGEWG and prioritization list is an inherently flexible tool for assessing distribution and recommending where to accept and how to mitigate risk to the force as a whole.

Consequently, as shown, the Marine Corps has a concrete and comprehensive plan of equipment distribution explicitly targeting short-term operational requirements over longer-term reset initiatives, making the overarching theme of the report factually inaccurate.

The Army equipment strategy of which reset is a small, but important, component has sustained equipment availability for deployed and deploying forces while meeting ongoing operational requirements for the past five years. All deployed units are in the highest two percent effective readiness status categories for their deployed mission requirements as defined by the Mission Essential Equipment List.

The Army Equipping strategy leverages all potential equipment inventories – left behind equipment, redistribution, new procurement, Sustainment Level Reset (supply transactions), and theater provided equipment to ensure units have the equipment they require for their train-up and deployment mission. It is important to note that the Army started the war with \$56B of equipment shortages – this equipping strategy has been able to successfully bridge / mitigate these shortfalls until the Army can procure the needed resources.

The Army changed its business process for Sustainment Level Reset items from maintenance to a supply transaction to mitigate equipment shortfalls in deployed and deploying units. This allows the Army to resource equipment shortfalls in units and is one of many equipping resource solutions that ensure units have the necessary equipment to meet ongoing operational requirements.

The Army Priority Resource List has also been in place since the war started. This list ensures that the highest priority units – deployed and deploying – are resourced from all available inventory before other requirements.

**Page 2, paragraph 1, last two sentences:** “The Marine Corps received \$5.8 billion in fiscal year 2007, slightly more than the \$5.1 billion they received in fiscal year 2006. Of the \$5.8 billion, the Marine Corps plans to fund reset with \$.9 billion from operation and maintenance appropriations and \$4.9 billion from procurement appropriations.”

\$.7 billion of the \$5.8 billion was initially appropriated for procurement of MRAP vehicles. These are Cost of War funds, not Reset funds. Therefore, the Marine Corps received \$5.1 billion in fiscal year 2007. (See the footnote 1 to Table 1 on page 14. The above sentences should be footnoted as well with the same narrative.)

See comment 3.

See comment 4.

**Page 5, top line:** GAO states that they “did not review the services’ overall equipping strategies.” Without understanding the comprehensive efforts to meet equipment demands, it is not possible to accurately conclude whether or not the Army and Marines will sustain equipment availability of deployed and deploying forces.

See comment 5.

**Page 5, Results in Brief,** first sentence needs to be revised as follows for accuracy:  
“Although the Army and Marine Corps track and report equipment reset expenditures in the operation and maintenance accounts in detail, they *have not been requested to* report detailed equipment expenditures...for reset are expended for that purpose because there is no *Congressional* requirement...”

See comment 6.

**Page 6, Second complete sentence** should be revised for accuracy:  
“however, Army and Marine Corps *demonstrated* they could provide an historical accounting...”

See comment 7.

**Page 6, Last complete sentence** should be revised for accuracy:  
“Neither the Army nor the Marine Corps *has been required, or requested to* itemize the types of equipment replaced or recapitalized within procurement accounts such as wheeled and tracked vehicles *in the monthly Supplemental and Cost of War, Execution Report*”

See comment 8.

**Page 7, Line 11:** The Army has historical execution data upon which to base future cost estimates. However, estimates are revised based on actual experience of costs related to repair and recapitalization, the number of battle losses, and the amount of equipment to be replaced within a given year.

See comment 9.

**Page 7, paragraph 2, sentence 1:** “The Army and Marine Corps cannot be assured their reset strategies will sustain equipment availability for deployed units as well as units preparing for deployment to Iraq and Afghanistan while meeting ongoing operational requirements because neither the Army’s nor the Marine Corps’s reset strategies target shortages of available equipments and prioritize equipment needs of units preparing for deployment over longer-term modernization goals.”

Please see comments to the first sentence of paragraph 2.

See comment 10.

**Page 7, last sentence, and Page 8, first sentence:** “Similarly, the Marine Corps’ reset goal is to ensure the Corps is equipped to perform both ongoing operations and other future missions. However, neither the Army nor the Marine Corps can ensure that their reset strategies can achieve these goals because neither service’s reset strategies target shortages of available equipment needed to equip deploying units and units preparing for other missions and contingencies in order to minimize operational risk.”

Please see comments to the first sentence of paragraph 2.

See comment 11.

**Page 8, line 6:** While it is true those HMMWVs that will be recapitalized will have minimal training value, it is also true that these will fill critical equipment shortfalls for the Continental United States (CONUS)-based units in support of homeland defense (HLD) and homeland security (HLS) missions. On 10 September 2001, the Army was short \$1,148M worth of HMMWVs. The Global War on Terror (GWOT) generated the operational need for an additional \$1,291M for Up-Armored HMMWVs (UAH). As the war continued, the need for UAHs increased significantly and all possible assets were sent to Theater to resource the Army's highest priorities. Until the war ends, we must still resource the requirements for CONUS-based units – these HMMWVs must be recapitalized and provided against these critical shortfalls.

See comment 12.

**Page 8, line 12:** The plan to modernize Abrams Tanks and Bradley Fighting Vehicles as part of the Army's reset strategy is to ensure that units have the most capable equipment available for the next mission. The reset definition recognizes the value of upgrading equipment during this time since major components must be disassembled as part of the repair process. Upgrading the vehicles at this time saves dollars in the long term, while also providing enhanced capabilities. Congress has supported and endorsed the upgrade and modernization of equipment during the Army reset process. On 18 April 2007, during the House Appropriations Subcommittee on Defense Hearings on reset, the committee endorsed the modernization of equipment during reset stating "that is what we like to see. Because if we are going to do it, we might as well do it right and put the most modern technology into the equipment."

See comment 13.

**Page 9, paragraph 1:** "In contrast, the Marine Corps reset planning process emphasizes replacing equipment; however, actions required to support this strategy have adversely impacted readiness of non-deployed Marine Corps units. For example, the Marine Corps has had to chose (sic) between providing equipment to units preparing to deploy to Iraq and Afghanistan and unit training for other contingencies such as humanitarian and disaster relief efforts in Pakistan and the Philippines, theater Security Cooperation events in Central America and parts of Africa, and protecting our embassies. Until the services' reset strategies target shortages of equipment needed to equip units preparing for deployment and ensure those units are given priority over longer-term equipment needs, the Army and Marine Corps will be unable to minimize operational risk by ensuring the needs of deploying units can be met."

As stated earlier, the current inventory of Marine Corps equipment does not allow for the regular rotation of equipment with forces. Consequently, equipment cannot be run through depot maintenance after each rotation of forces without a disruption in combat operations. While the Marine Corps implemented a primary end item rotation, noted in the report on page 12, several end items remain in critical demand and short supply. As the equipment presently being procured is manufactured and comes into the inventory the ratio of procurement to maintenance will decrease.

Furthermore, the Marine Corps does not specifically train for disaster relief efforts, as they are not in the core focus of the Marine Corps (an expeditionary fighting force). It also seems illogical to state that the Marine Corps must prioritize equipment for such specific disaster relief operations as Pakistan and the Philippines, as disasters are unpredictable, both in timing and location, and not a primary objective of Marine Corps training. Finally, the Marine Corps mission to protect U.S. Embassies involves no reset activities whatsoever. Marines protecting embassies do not suffer training inadequacies due to deployed operations.

See comment 14.

Ideally, the sentence stating “For example, the Marine Corps has had to chose (sic) between providing equipment to units preparing to deploy to Iraq and Afghanistan and unit training for other contingencies such as humanitarian and disaster relief efforts in Pakistan and the Philippines, theater Security Cooperation events in Central America and parts of Africa, and protecting our embassies...” should read “For example, the Marine Corps has had to prioritize the distribution of equipment between theater-specific training exercises, such as Mojave Viper, and training done at home stations. Ultimately, however, the Marine Corps reset strategy will source all home stations and training stations with the full compliment of equipment.”

**Page 10, sentence 4:** “Most of the Marine Corps equipment is not rotating out of theater at the conclusion of each force rotation.”

This statement is factually true. However, it should be noted that this is due to low equipment density. Furthermore, the current strategy of leaving behind equipment provides the best possible equipping solution in the short-term.

See comment 15.

**Page 11, line 3, 6, and 7:** References to “national level” reset are technically not correct and should be changed to “sustainment level” reset, the Army has two levels of maintenance: Field and Sustainment.

See comment 16.

**Page 15, paragraph 1, sentence 4:** “Rotation of equipment was not possible after operations began because spare equipment was not available for use while equipment was in depot maintenance.”

As noted earlier, this continues to be the case. Until equipment procured with reset funds appropriated in FY06 and FY07 deliver in force, the Marine Corps will experience equipment deficiencies at certain lower priority bases, stations, and units.

See comment 17.

**Page 17, top of the page,** second and third lines should be revised for accuracy: “...because there is no congressional requirement to report...”

See comment 18.

**Page 17, Starting at line 10** should be revised as follows for accuracy: “While the Army and Marine Corps track reset expenditures and obligations in detail within the procurement accounts, they have not been requested to report those expenditures at the same level of detail as with the operation and maintenance accounts. However, army and Marine Corps officials demonstrated that they could provide an historical accounting of those reset obligations and expenditures back to fiscal year 2002 if requested to do so.”

See comment 19.

**Page 18, Second complete sentence** should be revised for accuracy: “...itemized accounting is not currently required by the Congress, or the reset cost category of the DoD FMR.”

**Page 18, paragraph 2 sentence 4:** “The Marine Corps does not provide these additional reports.”

See comment 20.

While true, the statement is slightly disingenuous. Only the Army was requested/required to provide the cited reports by Congressional language. The Marine Corps was not requested/required to do such, and consequently does not do such.

Furthermore, the Marine Corps can provide greater detail from the established accounting system on the execution of reset funding. At a minimum, budget line item level detail can be provided if requested.

See comment 21.

**Page 19, the second complete sentence** is inaccurate should be deleted. The statement, "In addition, because the Army was not required to track the execution of its reset appropriations from the onset of operations, it does not have historical execution data upon which to base future cost estimates," is inconsistent with the statement on page 17 which currently reads, "However, Army and Marine Corps officials stated that they could provide an historical accounting of those reset obligations and expenditures back to 2002 if required to do so."

See comment 22.

**Page 19, the last complete sentence** is inaccurate and should be deleted for the reasons cited above.

See comment 23.

**Page 20, first, fourth, and last sentences:** "...neither the Army's nor the Marine Corps's reset strategies target shortages of available equipment and prioritize needs of units preparing for deployment over longer-term modernization goals."

"Similarly, the Marine Corps' reset goal is to ensure that the Corps is equipped to perform both ongoing operations and other future missions; however, 90 percent of the Marine Corps fiscal year 2006 and fiscal year 2007 supplemental budget requests are for procurement of new equipment that will not be available for many months."

"Furthermore, the Army's and Marine Corps's reset strategies do not ensure that reset of equipment needed to support units that are preparing for deployment are given priority over other longer-term equipment needs, such as equipment modernization in support of the Army's modularity initiative, because reset strategies are not linked to meeting deploying unit equipment needs."

The first two sentences cited are verbatim repeats of statements made earlier in the GAO document and addressed earlier in this response. The last phrase of the last sentence cited (underlined) is the most objectionable. As asserted earlier, SGEWG works diligently to ensure that equipment availability for all units remains at an optimum level in the near term for deployed/deploying units. Furthermore, this statement contradicts GAO's own earlier assertion (page 8) that "...deployed Army and Marine Corps units and units about to deploy generally report high readiness rates."

See comment 24.

**Page 21, sentence 6:** "...according to a unit preparing to deploy, the model High Mobility, Multi-Purpose Wheeled Vehicles (HMMWVs) they were given to train with were limited in number and were significantly different from the armored HMMWVs they were expecting to use while in theater."

GAO does not specify which branch of service to which the unit in question belonged. If referring to a Marine Corps unit, the statement is in fact incorrect. Marine Corps units preparing for

deployment, through Mojave Viper exercises, train on identical equipment sets to those currently in theater.

See comment 25.

**Page 22, line 15:** The aggregate requirement to improve equipment levels for units across the Army is accomplished as apart of our Program Objective Memorandum / budget submissions. As units get closer to deployment, all equipping solutions are leveraged to ensure that units have the equipment they require to execute their mission.

**Page 23, sentence 5:** "...the Marine Corps has had to make trade-offs between unit training for other types of contingencies and units preparing to deploy to OIF."

See comment 26.

This statement is factually true. The Marine Corps has placed a priority on training units for OIF as that is presently the largest and most deadly contingency the Marine Corps is presently involved in. The Marine Corps has limited financial and manpower resources and must prioritize to ensure mission accomplishment and combat casualty minimization.

See comment 27.

**Page 24, sentence 3:** "The Army and Marine Corps's reset strategies do not ensure that the repairing, replacing, and recapitalization of equipment needed to support units that are preparing for deployment are being given priority over other longer-term equipment needs because reset strategies are not linked to meeting deploying unit equipment needs."

This statement is a near-verbatim repeat of earlier assertions in the GAO document. The Marine Corps's reset strategy is linked to meeting deploying unit equipment needs. The Marine Corps level of spending on replacement versus repair and recapitalization is high because of low equipment density. The Army equipment strategies do target equipment shortages and ensure that operational risk is minimized while meeting the needs of deploying units.

See comment 28.

**Page 24, third paragraph:** Sustainment level reset does give priority to deploying unit equipment needs and considers the need to upgrade equipment as part of our reset strategies. Tank and Bradley upgrades provide improved war-fighting capabilities as well as better reliability, availability, and maintenance improvements while saving costs.

See comment 29.

**Page 25, paragraph 2, sentence 1:** "The Marine Corps reset planning process does not include an evaluation of trade-offs between the shorter-term need to improve the degraded readiness of Marine Corps units in the United States against longer-term requirements for procurement to replace deployed items that may not impact readiness for some time. For example, the Marine Corps has requested supplemental appropriations to procure 3,700 MRAP vehicles to replace HMMWVs, while also planning to procure additional HMMWVs as part of reset to replace older variants and deployed A2 HMMWVs severely degraded due to OIF missions. However, many of these HMMWVs will not be fielded for more than 2 years. In the short-term, the Marine Corps needs the MRAPs for increased force protection while the requirement for HMMWV replacements will continue beyond OIF/OEF. Until reset strategies are linked to the equipment needs of deploying units, the Army and Marine Corps will be unable to prioritize their reset plans and funding to ensure that the short-term needs of deploying units can be met."

The narrative of this paragraph appears to confuse the purpose and intent of reset the force efforts. Reset is, in broad terms and pointed out in the introduction of the GAO draft report, restoring the capabilities impacted by operations in Iraq and Afghanistan to meet future contingencies. MRAPs are an equipment set specific to the conflict in Iraq and, consequently, will not be incorporated into

the standard Marine Corps inventory at the levels employed for current operations. As a result, HMMWVs are still required in reset as the medium-term capability set for future contingencies. Likewise, MRAPs, being employed exclusively for OIF, are operational “costs of war.” Such strategy is also included in footnotes to the table on page 14 of the report.

**Page 28, paragraph 2, sentence 2:** “We did not review the services’ overall equipping strategies.” This statement is cause for concern, especially in light of the title of the document in question *Army and Marine Corps Cannot Be Assured Equipment Reset Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational Requirements*. The report title in cover sheet should be changed to the title originally listed in the draft read ahead documents *Army and Marine Corps Equipment Reset Strategies* (GAO Code 350994). The old title articulated the focus of the audit vice the current title which is unsupported by fact.

See comment 30.

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The following are GAO's comments to the Department of Defense's (DOD) technical comments dated August 3, 2007.

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## GAO's Responses to DOD's Technical Comments

1. DOD stated that our statement that "the Army and Marine Corps do not report detailed equipment reset expenditures within the procurement accounts in a way that confirms that funds appropriated for reset are expended for that purpose because DOD FMR does not require them to specifically report procurement expenditures for reset in detail" does not accurately reflect what we were told, and suggested revising the statement to reflect the fact that neither Congress nor the DOD Financial Management Regulation (FMR) require the services to specifically report procurement expenditures for reset in detail. While the Conference Report accompanying the DOD appropriations act for 2007 directed the Secretary of Defense to periodically provide a detailed accounting of reset obligations and expenditures of funds provided in Title IX of the act, which includes funds for reset, by program and subactivity group and to provide a listing of equipment procured using funds appropriated under Title IX of this act,<sup>1</sup> the Army and Marine Corps are not legally required to provide this detailed accounting. The Army and Marine Corps currently provide detailed reports of obligations and expenditures within the operation and maintenance accounts, but have chosen not to provide the same detailed accounting of obligations and expenditures within the procurement accounts. We have revised the report as appropriate.
2. DOD disagreed with our statement that the Army and Marine Corps cannot be assured that their reset implementation strategies will sustain availability for deployed units as well as units preparing for deployment to Iraq and Afghanistan while meeting ongoing operational requirements because neither the Army's nor the Marine Corps' reset implementation strategies target shortages of available equipment and prioritize equipment needs of units preparing for deployment over longer-term modernization goals. DOD noted that the Army equipment strategy, of which reset is a small but important component, has sustained equipment availability for deployed and deploying forces while meeting ongoing operational requirements for the past 5 years. The Marine Corps employs a documented, standardized, and flexible reset strategy designed to meet both current operational requirements and long-term reconstitution strategies. While we acknowledge that reset is only one component of the services' overall equipping

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<sup>1</sup>H.R. Conf. Rep. No. 109-676, at 359 (2006), which accompanied the Department of Defense Appropriations Act, 2007, Pub. L. No. 109-289 (2006).

strategies, as we stated in our report, the Army's primary goal for equipment reset is to prepare units for deployment and to improve next-to-deploy units' equipment-on-hand levels, and the Marine Corps' priority for equipment reset is to support deployed forces. However, the Army's and Marine Corps' implementation of their reset implementation strategies do not necessarily address shortages of equipment in the short term. Instead, the Army's implementation of its reset strategy is based on plans for repairing, recapitalizing, or replacing equipment returning from overseas theaters in a given fiscal year, while the Marine Corps' implementation of its reset strategy is based on ensuring that Marine Corps units are equipped to perform both ongoing operations and other future missions. For example, as we stated in our report, an Army unit preparing to deploy was given a limited number of High Mobility Multi-Purpose Wheeled Vehicles (HMMWV), which were significantly different from the armored HMMWVs it was expected to use in Iraq. However, at the same time the Army was planning to recapitalize 7,500 HMMWVs at a cost of \$455 million, which would have limited training value for deploying units because the unarmored HMMWVs have different handling characteristics than those they would use in Iraq. Also, because the recapitalization did not include armor, the HMMWVs would not be deployed and would not fulfill the short-term needs of deploying units.

3. GAO agrees with the suggested change and revised the report as appropriate.
4. DOD stated that our statement that we did not review the services' overall equipping strategies made it impossible for an accurate conclusion as to whether the Army and Marine Corps will sustain equipment availability of deployed and deploying forces, because without reviewing the services' overall equipping strategies we would not understand the comprehensive efforts to meet equipment demands. While we acknowledge that reset is only one component of the services' overall equipping strategies, our report focuses on the services' reset implementation strategies and related reset funding, not the overall equipping strategies, which would include other equipment priorities such as modernization, homeland defense, and homeland security. Further, as we have previously testified,<sup>2</sup> for certain equipment items, the Army and Marine Corps have not developed complete sustainment, modernization, and replacement strategies or identified funding needs for all priority equipment items.

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<sup>2</sup>[GAO-06-604T](#).

5. See comment 1.
6. GAO agrees with the suggested change and revised the report as appropriate.
7. See comment 1.
8. GAO agrees with the suggested change and revised the report as appropriate.
9. See comment 2.
10. See comment 2.
11. DOD stated that while it is true that the HMMWVs that will be recapitalized will have minimal training value, these vehicles will fill critical equipment shortfalls for the Continental United States-based units in support of homeland defense and homeland security missions. Prior to September 11, 2001, the Army was short \$1.1 billion worth of HMMWVs. However, as we stated in our report, the Army's primary goal for equipment reset is to prepare units for deployment and to improve next-to-deploy units' equipment-on-hand levels, and the Marine Corps' priority for equipment reset is to support deployed forces. Reset implementation strategies should target shortages of equipment needed to equip deploying units and units preparing to deploy to Iraq and Afghanistan, rather than other longer-term equipment goals such as modernization, homeland defense, and homeland security.
12. DOD disagreed with our statement that the Army's fiscal year 2007 reset strategy includes plans to modernize Abrams Tanks and Bradley Fighting Vehicles to accelerate achieving long-term strategic goals under the Army's modularity initiative, stating that the plan to modernize these vehicles is to ensure that units have the most capable equipment available for the next mission. However, accelerating modernization programs in general to achieve a modular force structure may be sacrificing other short-term needs for longer-term goals.
13. DOD disagreed with our statement that the Marine Corps' reset planning process emphasizes replacing equipment but that actions required to support this strategy have adversely affected readiness of nondeployed Marine Corps units preparing to deploy to Iraq and Afghanistan and unit training for other contingencies such as humanitarian and disaster relief. DOD stated in its comments that the

Marine Corps does not specifically train for disaster relief efforts and it is illogical to state that the Marine Corps must prioritize equipment for such specific disaster relief operations as Pakistan and the Philippines as disasters are unpredictable and not a primary objective of Marine Corps training. We acknowledge that disaster relief operations are not the primary objective of the Marine Corps training. However, as part of its decision-making process on how to invest its reset funds, the Marine Corps has had to make trade-offs between short-term needs, for example, units preparing to deploy to Iraq and Afghanistan, and unit training for nondeployed units for other contingencies and deploying troops for other operations such as disaster relief; that is, potentially longer-term needs. We have revised the report as appropriate.

14. GAO agrees with the suggested change and revised the report as appropriate.
15. GAO agrees with the suggested change and revised the report as appropriate.
16. See comment 13.
17. See comment 1.
18. See comment 1.
19. See comment 1.
20. GAO agrees with the suggested change and revised the report as appropriate.
21. DOD disagreed with our statement that because the Army was not required to track the execution of its reset appropriations from the onset of operations, it does not have historical execution data upon which to base future cost estimates and that it is inconsistent with the statement that Army and Marine Corps officials said that they could provide an historical accounting of those reset obligations and expenditures back to 2002 if required to do so. While we agree that the Army now has historical execution data upon which to base future cost estimates, at the time of our review, Army officials stated that they did not track execution data at the onset of operations. Subsequently, Army officials provided execution data as of fiscal year 2002 broken down by operation and maintenance (i.e., field-level repair, depot-level repair, Army pre-positioned stock, and recapitalization—rebuild) and procurement (i.e., recapitalization—

upgrade and replacement). However, Army officials stated that they had to extrapolate these numbers because the data were not tracked that way at the onset of operations. We have revised the report to reflect the Army's position.

22. See comment 21.

23. DOD disagreed with our statements that neither the Army's nor the Marine Corps' reset implementation strategies target shortages of available equipment and prioritize needs of units preparing for deployment over longer-term modernization goals and stated that the phrase "because reset strategies are not linked to meeting deploying unit equipment needs" was most objectionable. Furthermore, DOD stated that this statement contradicts an earlier assertion that deployed Army and Marine Corps units and units about to deploy generally report high readiness rates. As we stated in our report, while we acknowledge that reset is only one component of the services' overall equipping strategies, we continue to believe that the Army's and Marine Corps' reset implementation strategies should target short-term equipment shortages rather than longer-term modernization goals. We believe the Army and Marine Corps should use reset funding in accordance with the services' stated goals of reset, that is, to prepare units for deployment and to improve the next-to-deploy units' equipment on hand. Using reset funding to accelerate modernization goals by procuring new equipment that may not be available for many years may be sacrificing short-term needs for longer-term goals. The statement that deployed Army and Marine Corps units and units about to deploy generally report high readiness rates was taken out of context. As we stated in our report, although deployed Army and Marine Corps units and units about to deploy generally report high readiness rates, the services have reported a decrease in nondeployed units' readiness rates, in part due to equipment shortages. While the readiness of nondeployed units may not be as high a priority as the readiness of deployed or deploying units, nondeployed units can be called up at any time should other contingencies occur.

24. DOD disagreed with our statement that a unit preparing to deploy was given HMMWVs to train with that were limited in number and were significantly different from the armored HMMWVs it was expected to use while in theater. DOD stated in its comments that if we were referring to the Marine Corps the statement is in fact incorrect because Marine Corps units preparing for deployment through Mojave Viper exercises train on identical equipment sets to those currently in

theater. The unit in question was an Army unit. We have revised the report as appropriate.

25. See comment 21.

26. DOD agreed with our statement that the Marine Corps has had to make trade-offs between unit training for other types of contingencies and units preparing to deploy to OIF. DOD stated in its comments that the Marine Corps has placed a priority on training units for OIF as that is presently the largest and most deadly contingency the Marine Corps is presently involved in and the Marine Corps has limited financial and manpower resources and must prioritize to ensure mission accomplishment and combat casualty minimization. As we stated in our report, the Commandant of the Marine Corps has testified<sup>3</sup> that the Marine Corps has had to choose between providing equipment to units preparing to deploy to Iraq and Afghanistan and unit training for other contingencies while also deploying troops to support other operations, such as humanitarian and disaster relief efforts in Pakistan and the Philippines, Theater Security Cooperation events in Central America and parts of Africa, and protecting our embassies. We have revised our report as appropriate.

27. DOD disagreed with our statement that the Army and Marine Corps' reset strategies do not ensure that the repairing, replacing, and recapitalization of equipment needed to support units that are preparing for deployment are being given priority over other longer-term equipment needs because reset strategies are not linked to meeting deploying unit equipment needs, stating that the Army equipping strategies do target equipment shortages and the Marine Corps' level of spending on replacement versus recapitalization is high because of low equipment density. As we stated in our report, while we acknowledge that reset is only one component of the services' overall equipping strategies, the Army's primary goal for equipment reset is to prepare units for deployment and to improve next-to-deploy units' equipment-on-hand levels, and the Marine Corps' priority for equipment reset is to support deployed forces. However, the Army's and Marine Corps' reset implementation strategies do not necessarily address shortages of equipment in the short term. Instead, the Army's reset implementation strategy is based on plans for repairing,

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<sup>3</sup>*Marine Posture Statement*, Statement before the Senate Committee on Armed Services, 110th Cong. (2007) (statement of Gen. James T. Conway, Commandant of the Marine Corps).

recapitalizing, or replacing equipment returning from overseas theaters in a given fiscal year, while the Marine Corps' reset implementation strategy is based on ensuring that Marine Corps units are equipped to perform both ongoing operations and other future missions. While we acknowledge that the Marine Corps reset implementation strategy may be focused on longer-term goals due to low equipment density, we continue to believe the Army's and Marine Corps' reset implementation strategies should target short-term equipment shortages to equip deploying units and units preparing to deploy to Iraq and Afghanistan rather than longer-term modernization goals. We have revised the report as appropriate.

28. DOD disagreed with our statement that the Army's reset strategy has included funding requests for certain items to accelerate achieving longer-term strategic goals under the Army's modularity initiative. DOD stated in its comments that sustainment-level reset does give priority to deploying unit needs and considers the need to upgrade equipment as part of reset implementation strategies, and that tank and Bradley upgrades provide improved warfighting capabilities as well as better reliability, availability, and maintenance improvements while saving costs. While we acknowledge that achieving these modularity milestones for Abrams Tanks and Bradleys will achieve greater commonality in platforms and reduce overall logistical and financial requirements by reducing the number of variants that must be supported, we continue to believe that using reset funds to accelerate modernization programs such as these by 1 to 2 years to achieve a modular force structure as well as funding other longer-term equipment goals, such as homeland defense and homeland security, may be sacrificing short-term needs for longer-term goals. Also, as we stated in our report, the Army has reported that modularity requirements (i.e., longer-term modernization goals) mirror the equipment that the Army already procures for its units and it is unable to precisely track modularity funds and distinguish those funds from reset funds. We have revised the report as appropriate.
29. DOD disagreed with our statement that the Marine Corps' reset planning process does not include an evaluation of trade-offs between the shorter-term need to improve the degraded readiness of Marine Corps units in the United States against longer-term requirements for procurement to replace deployed items that may not affect readiness for some time. DOD stated in its comments that the narrative of the paragraph appears to confuse the purpose and intent of reset efforts and that reset is, in broad terms and as pointed out in the introduction of the draft report, restoring the capabilities affected by operations in

Iraq and Afghanistan to meet future contingencies. DOD stated that Mine Resistant Ambush Protected vehicles (MRAPs) are an equipment set specific to the conflict in Iraq and, consequently, will not be incorporated into the standard Marine Corps inventory at the levels employed for current operations and, as such, are considered operational costs of war, not reset, and that HMMWVs are still required in reset for future contingencies. While we acknowledge that funding for MRAPs is considered a cost of war, not a reset cost, the request for HMMWVs has not been reduced to reflect the number of MRAPs that will replace those HMMWVs. We continue to believe that the Marine Corps' reset planning process should include a trade-off between the shorter-term need for MRAPs and the longer-term need for HMMWVs. As we stated in our report, the Marine Corps as well as the Army have noted equipment shortages in readiness reports' remarks sections with deploying units planning to fall in on equipment in theater. And, as we have testified, since 2003, deploying units have continued to subjectively upgrade their overall readiness rates as they approach deployment dates, despite decreasing overall readiness levels among those same units. We have revised the report as appropriate.

30. DOD stated in its comments that because we did not review the services' overall equipping strategies, the title should be changed to reflect the title of the draft document presented at the exit conference, *Army and Marine Corps Equipment Reset Strategies*, because the current report title is unsupported by fact. This report discusses reset implementation strategies only and does not include overall Army and Marine Corps equipping strategies. As we have discussed in our report, the Army and Marine Corps have not developed complete sustainment, modernization, and replacement strategies or identified funding needs for all priority equipment.<sup>4</sup> Congress has appropriated tens of billions of dollars specifically for equipment reset since fiscal year 2002. This report is limited to a discussion of how the Army and Marine Corps have tracked and reported the obligation and expenditure of those funds and how the services' strategies for equipment reset can sustain equipment availability while meeting ongoing operational requirements. We continue to believe that the title of the report, *Defense Logistics: Army and Marine Corps Cannot Be Assured That Equipment Reset Implementation Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational Requirements*,

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<sup>4</sup>[GAO-06-141](#).

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remains valid and supported by the facts as we have presented them  
and that the report does not warrant a change in title.

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# Appendix V: GAO Contact and Staff Acknowledgments

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## GAO Contact

William M. Solis (202) 512-8365 or [solisw@gao.gov](mailto:solisw@gao.gov)

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## Acknowledgments

In addition to the contact named above, David A. Schmitt, Assistant Director; Renee Brown; Frank Cristinzio; Luke Hartig; Brent Helt; Donna M. Rogers; Yong Song; and Maria Storts made key contributions to this report.

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## GAO's Mission

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